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Translation

Prices in the Mechanism of Economic Cooperation
of the CEMA-Member Countries



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PRICES IN THE MECHANISM OF ECONOMIC COOPERATION OF THE CEMA-MEMBER COUNTRIES

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This monograph examines a broad range of current pricing problems in the field of foreign economic cooperation of the CEMA countries: the economic nature and functions of the prices of the international market of the CEMA countries are revealed; the present system of contract prices is analyzed; the peculiarities of price formation in the context of the integrational forms of cooperation are described; and the author's position concerning prospects for the further improvement of the contract price system is set forth.

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Introduction

For a thousand years humanity has noted the conformity to law in the phenomenon of exchange and has striven to understand and express it more precisely, to verify its explanations by millions and billions of observations of economic life.

V. I. Lenin

The magnificent prospects for construction of communist and advanced socialist society outlined in the programmatic documents adopted by the congresses of communist and worker parties of the CEMA member countries which took place in 1975 and 1976 include as one of the most important political and economic tasks further intensification of foreign economic cooperation among the fraternal countries on the basis of socialist economic integration.

The Report of the CC CPSU to the 25th party congress, which has enriched the theory and practice of scientific communism, spoke about the importance of developing foreign economic relations among the CEMA countries with maximum clarity: "We see foreign economic relations as an effective means toward solving both political and economic problems. The might and solidarity of the commonwealth of socialist countries are strengthened through the processes of economic integration."¹ The Politburo of the CC CPSU attributes particular importance to the Comprehensive Program of Socialist Economic Integration jointly adopted by the CEMA countries in 1971; it raises cooperation to a higher level than the mere development of trade. As noted by Comrade L. I. Brezhnev: "Work to implement the Comprehensive Program has had the result that even now our economic interaction has become considerably more elaborate, and the mutual complementarity of the economies of our countries has increased--to the considerable benefit of each of them."²

In his presentation of the Report at the 7th Congress of the Polish United Workers Party [PZPR], Comrade Edward Gierek, first secretary of the PZPR Central Committee, called the process of intensification of socialist economic integration an objective pattern in the present stage of the construction of socialism and communism in the CEMA countries. Going on to state

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this proposition in the concrete terms of the tasks of the Polish People's Republic, he remarked: "Poland is in favor of expansion of this process, of a transition to higher forms of cooperation on an ever broader front. We have set ourselves the task of achieving at least a 3.5-fold growth of turnover with the CEMA member countries in the present decade. We are successfully performing this task. We have also set ourselves the task of increasing the share of industrial cooperation in mutual economic relations. We are also achieving substantial progress in this field as well. We are striving to increase Poland's contribution to development of the entire commonwealth and to strengthen economic relations with the socialist countries in every aspect."³

In his address at the 11th Congress of the Bulgarian Communist Party [BCP] Comrade Todor Zhivkov, first secretary of the BCP Central Committee, referred to the task of expanding and strengthening Bulgaria's integration with the fraternal socialist countries as one of the five most important problems in building the advanced socialist society.

In spelling out this task Comrade Zhivkov said: "In the present stage it is becoming very important to develop and coordinate the long-range strategy in the socioeconomic policy of the CEMA member countries, a strategy which would reflect the main trends in development of each country and of the entire commonwealth as a whole."⁴

In describing the sources of the success achieved by the Czechoslovak Communist Party [CPCZ] and by socialist Czechoslovakia, Comrade Gustav Husak, general secretary of the CPCZ Central Committee, said in his address at the 15th party congress: "We have always acted on the principle that the comprehensive development of socialist Czechoslovakia is inseparably bound up with strengthening the might and unity of the socialist commonwealth." He went on to say: "Our contribution to a further growth of the might and a close interaction of the countries of the socialist commonwealth and to acceleration of the process of socialist economic integration has also augmented our own strength and enhanced the international prestige of the Czechoslovak Socialist Republic."⁵

Unanimous recognition in the decisions of the congresses of the communist and worker parties of the CEMA countries of the paramount significance of socialist economic integration to the further expansion and strengthening of mutual cooperation emphasizes the urgency of constantly invigorating the efforts of science and practice aimed at improving the planned management of the processes of integration. This applies first of all to the need to improve the present mechanism of cooperation, which means the entire set of organizational-and-legal forms which are used and the system of economic methods and instruments that ensure effective management of development not only of external relations among the CEMA countries themselves, but also the spheres of the national economy which they interconnect.

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The great theoretical and practical importance of this problem led to the selection of the principal aspect of the present study and the logical structure of the monograph which we offer. Its principal content is a consideration in the broadest possible economic scope of the place and role of the contract price system, which is one of the most active instruments in the economic mechanism of cooperation and in the stimulation of intensive and highly efficient production-technical and trade relations among the CEMA countries in the period of socialist integration. At the same time the task was set of tracing the impact in the opposite direction which the specific features of economic cooperation have on prices in the context of integration, which imposes specific requirements, requirements concerning the character of price determination in particular. Another of the ultimate goals of analyzing the problem of price formation that was borne in mind was to attempt, at least to the point of posing the problem, to determine the prospects for the further improvement of the contract price system in the stage of socialist economic integration.

In her study of this problem the author studied above all the abundant experience of the USSR Ministry of Foreign Trade--the principal price setting unit and center for devising the principles and methods used in price structuring in the USSR's foreign trade with the CEMA countries. A thorough analysis was made of the basic position on the issues of further improvement of pricing contained in the Comprehensive Program of Socialist Economic Integration. Use was also made of the substantial contribution made to development of pricing theory and practice by the collective efforts of representatives of all the countries who for many years have cooperated through the framework of the work group for prices, which is part of the Standing CEMA Commission for Foreign Trade, the Conference of Heads of Price Agencies of the CEMA Member Countries, the International Institute for the Economic Problems of the World Socialist System, as well as by individual government, planning and scientific institutions of those countries.

Much attention was paid to studying the materials of international scientific conferences and symposia on pricing problems and also special monographs and periodicals in which many current pricing issues have been discussed very thoroughly. Even a mere listing of the authors of individual articles and monographs provides convincing evidence of the great scientific interest there is in the problems of pricing, an interest that has always been present in the CEMA member countries.

So, authors who have published in Bulgarian journals on a great variety of problems in foreign trade pricing include such economists as Zh. Aroyo, I. Vodenov, N. Velichkov, A. Zakhariev, G. Zhelev, V. Ivanova, B. Ilev, V. Kalchev, S. Kodinov, S. Krystev, A. Lyutov, (Ye. Mateyev), M. Savor, D. Stanoyev and Ts. Tsvetkov-Golubarev.

Among Hungarian authors who in their writing have taken up the problems of pricing we should mention above all (Sh. Aush, F. Barta, I. Vintse, O. Gado, F. Kozma, A. Marton, E. Nyul, D. Sakoltsai, Ya. Sit, M. Tardosh, K. Feldesh, Sh. Tsaytler, B. Chikosh-Nad', Zh. Ese and E. Yavorka).

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The following have published in the GDR economics literature on price problems: (K. Ambra, G. Brendel, G. Bruder, G. Grebig, G. Kolmay, Kh. Mann, V. Mayer, G. Nik, Ye. Faud and S. Tssherpe).

(Ye. Basyuk, D. Bozhik, A. Bodnar, S. Gura, M. Gusek, Z. Knyzyak, M. Meshchankovskiy, Yu. Payestka, Yu. Plovets, S. Polyachek, I. Putkovskiy, Yu. Soldachuk and V. Shtyber) are among the Polish economists who have paid a great deal of attention to treatments of pricing problems in mutual cooperation.

The various problems of pricing have taken an important place in the writings of Romanian economists like (Sh. Arsene, M. Gorovits, K. Ionete, I. Itsikovich, L. Kretsu, N. Luka, G. Marin, S. Menestiryanu, I. Rakhmut, G. Shike, G. Shiklovan and K. Yakobson-Boldishor).

Certain aspects of pricing have been covered by articles in periodicals by Czechoslovak economists: (V. Valek, Ya. Kubalek, A. Neyshtadt, Y. Spal, I. Sladkova, Z. Khalupski, Yu. Shtourachova), etc.

In the Soviet literature the problems of foreign trade pricing have been treated in the writings of N. Bautina, O. Bogomolov, A. Borisenko, Ye. Georgiyev, V. Grinev, V. D'yachenko, V. Zhukov, V. Zolotarev, M. Kovaleva, Yu. Kormnov, N. Konovalova, B. Ladygin, I. Oleynik, Yu. Ol'sevich, K. Popov, O. Rybakov, V. Rybalkin, O. Tarnovskiy, Yu. Shamray and V. Shastitko

Summarization of the results of this collective exploration of ways to further improve the setting of prices in foreign trade, though some of the positions taken are debatable and contradictory and though sometimes the result of certain lines of research is negative, has unquestionable value, it seems to us, to a scientific treatment of the problem. Even the theoretical "failure" of certain variants enriches not only theory, but also practice, helping it to get its bearings more quickly and confidently in a changing economic situation and convincing people that the pricing principles and methods chosen in practice are the correct ones. Accordingly the examination of the basic points of view contained in the economics literature is of great interest to analysis in our opinion.

The attempt we have made to systematize proposals made by various economies at various times showed that one can single out at least six representative variants of a possible structure of the contract price system depending on the nature of the value base that is used:

- i. establishment of contract prices in accordance with the current world price level;
- ii. the use of world prices as a base which have been adjusted to eliminate the influence of various types of conjunctural and speculative fluctuations;

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iii. direction of the contract price system on the basis of average domestic production costs of CEMA countries, using for that purpose the domestic wholesale prices of the countries weighted either for the total volume of production or for the total volume of exports;

iv. making domestic wholesale prices of one of the CEMA countries, the Soviet Union, for example, the basis of contract prices;

v. shaping the contract price system on the basis of the level of production costs of the principal exporters of various goods to the world socialist market;

vi. application of the methods of the multifactor approach in price determination, using as a base world prices adjusted by application of the value indicators of the national and regional (primarily on the scale of the economic cooperation of the European CEMA countries) levels.

As we know, for all practical purposes it was only in the first years after the victory of people's democracy in the European countries, which in 1949 formed the Council for Mutual Economic Assistance, that current world prices served as the basis of contract prices. This was the initial stage of their political and economic consolidation, when the foundations of the international division of labor among them were still just being laid and when within the framework of the commonwealth taking shape there was no specific currency or prices, nor could there have been. At first, then, contracts among the fraternal countries were concluded at world prices of the principal commodity markets. As a rule these were the world prices (in dollars) current at the moment when the contract was concluded, and provision was made for their subsequent revision on an annual basis. The method of current world prices was used this broadly in the practice of foreign trade price determination of the socialist countries up until 1950. Beginning in 1950, after CEMA was created, the countries switched to using world price levels as they stood at the end of 1949 and the beginning of 1950 as contract prices. For 6 years, all the way to the end of 1956, when the conjuncture of the prices of world trade was again greatly disrupted, these prices, converted to clearing rubles, were used in the mutual trade of the CEMA countries. Though strictly speaking the prices of that period were not entirely constant, since they were adjusted and replaced on a case-to-case basis as necessary on the basis of bilateral agreements of the interested countries. After 1956 use of the method of current world prices, which allowed only partial and irregular adjustment of their level, was deemed inadvisable because it did not coincide in character with the planned foreign economic relations among the socialist countries.

The CEMA countries began in 1957 to adjust the world prices used as the basis of contract prices more thoroughly and fundamentally. For example, when contract prices were being agreed on for commodity trade during 1958, average world prices of calendar year 1957 were taken as the base with the exception of prices of the first quarter of 1957 for those goods particularly

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influenced by the aggression of France, England and Israel against Egypt. But since the average annual world price level by and large makes it possible to eliminate only certain short-term fluctuations (seasonal fluctuations, for example), without affecting the deep cyclical changes in the prices of the capitalist economy, it was later decided to take as a base the average price level over a 5-year period. This was the method used to determine the base of contract prices in mutual commodity trade of the CEMA countries during two 5-year plans (1966-1970 and 1971-1975).

This practice in determination of contract prices, sometimes figuratively referred to as the stop price method, has been widely discussed in the economics literature and has accordingly its advocates and its critics. For example, the Soviet economist V. I. Zolotarev justifies the economic legitimacy of this method of price determination as follows: "Given the existence of two socioeconomic systems and two world markets connected to one another by market relations, there do not exist two world values, but only one international value, which is formed on the world market on the basis of the socially normal level of labor productivity in commodity production of all the countries, both capitalist and socialist."⁶ The author accordingly concludes: "In the present stage of development of economic cooperation practical work in the field of price determination on the world socialist market should be concentrated, it would seem, on the problems of improving the present system, which is based on using the prices of world commodity markets (as the base)."⁷

This point of view is shared in essential features by the German economist (G. Kol'may) and the Soviet economist K. I. Popov. For instance, (G. Kol'may) said in his presentation at the Budapest conference on a specific base of prices: "Proceeding from the general economic conditions that have come about and taking into account the objections to the models of a specific price base from the standpoint of theory, political economy and methods, the need has arisen and a proposal has been made to preserve the present system of prices among the CEMA countries for the period in question."⁸ K. I. Popov notes: "An analysis of the problem of improving price determination on the world socialist market shows that gradual introduction of improvements in the present method, which is based on the use of world prices, reflecting to a certain degree the international value of goods, should at present be considered the principal way of solving it. In spite of its shortcomings, this method best suits the real conditions of the given stage of development of the world socialist system. Its use makes it possible by and large to achieve equivalence of exchange and to stimulate optimum division of labor and a rise in labor productivity and reduction of the production cost of commodities."⁹

A number of other economists, for example, I. P. Oleynik and O. I. Tarnovskiy, take different positions on this question. Specifically, in one of his books I. P. Oleynik addresses his arguments directly to V. I. Zolotarev: "The relative autonomy of that market (the world socialist market--N. M.), the growing division of labor among the countries participating on it, and

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the specific social conditions of exchange create the objective prerequisites for formation of an independent value basis of mutual exchange among the socialist countries.... It would seem that basing the prices of the world socialist market on international socially necessary expenditures of labor within the limits of the socialist commonwealth or again within the limits of CEMA, consideration also being given to all other price-determining factors, would make it possible to register more fully the conditions for production and sale of goods being traded on the world socialist market. These prices would better correspond to the peculiarities and tasks of the circulation of commodities on the socialist market than the present contract prices, which are based on the prices of the world capitalist market."¹⁰

O. I. Tarnovskiy has repeatedly expressed criticism of the use of world prices as the base of contract prices. He has specifically written: "The prices of the principal commodity markets do not on the whole correspond to the conditions of production and sale in the socialist countries, but those countries still do not have an objective and generally recognized reference which might immediately be used in practice. Inappropriate to the conditions of production and sale in the sphere where there prices are applied, they are unable to fully serve the interests of planned growth, in particular the interests of elaboration of the international division of labor and development of the world socialist market."¹¹

With all due respect for some of the justified critical objections to the use of a borrowed value base and borrowed methods of adjusting it in the mutual trade among the CEMA countries, it is obvious that we must at the same time acknowledge that this variant of price determination, which has been tested in practice for three decades now, has ensured the normal development of foreign trade relations among them. It has also withstood the tests resulting from the major changes in the world price system in 1973 and 1974. The need merely arose to make a partial modification of the procedure in effect at that time for calculating the base level of contract prices, whose capabilities were designed for pricing within conditions of a relatively stable conjuncture in international trade. So, taking into account the highly dynamic nature and depth of the changes that have taken place in world prices, the CEMA countries adopted a joint recommendation that the shift be made to a sliding base of contract prices for the 1976-1980 period. The new procedure provides for annual adjustment of the base by determining the average level for the 5-year period immediately preceding the year when the contract price is being set. This makes it possible, while still maintaining basic continuity in the method of calculating contract prices on the basis of world prices, of making it tactically more flexible and of making the necessary adjustment of prices smoothly and systematically. At the same time this once again confirmed the viability of this method in the context of the requirements for developing the traditional form of foreign trade.

By contrast with the methods of trade based on current and adjusted world prices, which have been fully verified by practice, the variant of structuring the contract price system on the basis of average production costs of the CEMA countries, better known as the proposal for creating a price base

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peculiar to CEMA, has not been tested under real conditions. As we know, the work of studying possible ways of making the transition to a specific price base in trade among the CEMA countries, which began under a decision of the 9th Session of the CEMA (1958), was conducted on a full scale for almost 10 years. During that time economists of the CEMA countries at various organizational and scientific levels made careful comparisons of domestic wholesale prices of those countries, built several models of the possible level of average costs of a broad range of goods within CEMA, and formulated the probable consequences for all participants of the transition to the new basis of prices in mutual trade. For that reason, though this variant has not been tried in practice, a very reliable conception of it has been formed and its strong and weak points have been covered rather thoroughly in the economics literature, not uncommonly in diametrically opposed directions.

For example, the well-known Bulgarian economist (Ye. Mateyev), member of the academy, who is a consistent advocate of the idea of the transition to a price base specific to CEMA (sobstvennaya baza tsen), has written: "There is an objective need for prices in trade among the socialist countries which would be based on the conditions of production prevailing in the world socialist system. This price base peculiar to CEMA is not only the conclusion that follows from a theoretical analysis, but its elements are already beginning to take shape in real economic life.... In order to establish the prices of the world socialist market on 'its own base,' the average levels of production costs of the given products within individual countries have to be determined. In the determination of international prices on the basis of national costs the domestic price scale is converted to the scale of the base currency."¹²

At the very same time the Hungarian economist (B. Chikosh-Nad'), a very important specialist in the field of price determination, expressed an altogether different point of view at the Budapest conference on prices (1967) concerning the transition to a CEMA price base: "The question runs like this: What yields the best results in the present economic mechanism--continued adaptation of prices of the principal world commodity market or regulation of prices in conformity with the value relations of the world socialist market? In spite of the difficulties that arise in connection with adaptation of the prices of the principal world commodity market, it seems that in the present mechanism of cooperation the transition to a CEMA price base that would reflect the specific conditions of production and trade of the CEMA member countries is an unrealistic goal."¹³ (B. Chikosh-Nad') cites as the principal reasons why adoption of a new price base is unrealistic the inevitability that the countries would not take the same point of view in defining the principles for calculation of the socially necessary expenditures of labor within the framework of the world socialist economic system; abrupt changes in the balance of payments in the form of a rather sizable improvement for some countries and a worsening for others; and difficulties in ensuring the commensurability of the benefit in the trade of the CEMA countries on the world socialist and world capitalist markets.

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The Soviet economists V. N. Zhukov and Yu. Ya. Ol'sevich have conducted a very substantial study of the problem of the transition to a CEMA price base (sobstvennaya baza tsen); in addition to an examination of the most important theoretical and methodological issues, they also offer in their book very interesting results of a number of experimental calculations which make it possible to judge the directions and scale of the possible change of contract prices and the most probable consequences for the various countries related to the transition to the new pricing system. As a result of their study Zhukov and Ol'sevich reached the following conclusion: "The transition to new prices must be gradual and must be accompanied by the formation of compensation funds at the disposition of CEMA to cover the temporary losses and to extend aid to the parties in accomplishing the necessary restructuring of export production."¹⁴ As the authors go on to note, the gradualness pertains not only to the particular types of goods, since the degree of preparation for the transition to the new base varies, but also to the extent of the changes, which should be carried out step-by-step over a period of years. Moreover, joining (B. Chikosh-Nad'), they also relate the possibility of the transition to the CEMA price base to the need for a corresponding transformation of the very mechanism of foreign economic cooperation of the CEMA countries.

V. P. D'yachenko, corresponding member of the USSR Academy of Sciences, has made a large constructive contribution to treatment of the problem of the transition to the CEMA price base; his work has greatly facilitated not only the formation of scientific methods of theoretical formulation of the problem, but also determination of the conditions, possibilities and advisability of practical application. "Prices should be based on international (within CEMA) socially necessary expenditures of labor insofar as those socially necessary expenditures do actually come about. To merely average the national levels of socially necessary expenditures does not yet yield a result corresponding to the international socially necessary expenditures. More refined methods are needed for determining the level of international socially necessary expenditures so as to take into account the entire set of factors on which they depend."¹⁵ He continues: "Assuming a CEMA base of prices was adopted, real foreign trade transactions would continue to take shape on the basis of a comprehensive consideration and weighing of the degree of advantage of these transactions for exporters and importers. But the point of departure will not be the prices of world capitalist commodity markets, but the international socially necessary expenditures of labor of the socialist world economy."¹⁶ And finally: "There will be more realistic opportunities and a greater need for prices in foreign trade to reflect ever more fully the economically justified conditions of the production and sale of a product typical of the markets of the CEMA countries as commodity-money relations among them develop and improve. Without the development of commodity-money relations, it is not possible to fully discover and correctly take into account the economically justified peculiarities of the conditions for production and sale of products in the socialist countries."¹⁷ For our part we have also described the idea of creating a CEMA base of contract prices as one of the scientific hypotheses for improvement of price determination in trade among the CEMA countries in the future.¹⁸ Thus "at fault"

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for the fact that the CEMA base of prices has not been put into effect before this have been the manifestly premature--and consequently unrealistic--nature of the attempt to set up an independent price system at a time when there still did not exist the relevant economic and organizational conditions and prerequisites.

Nor has the recommendation concerning the possibility of setting contract prices in trade among the CEMA countries on the basis of the Soviet Union's wholesale prices, which has been repeatedly expressed in periodicals and at international conferences by the Bulgarian economist M. Savov,¹⁹ who has done a great deal of enthusiastic work on the problems of improving foreign trade price determination, progressed beyond the limits of experimental computations, as is well known. Yet it unquestionably deserves mention as one of the factors typical of a certain stage in the history of the study of the problem. In proposing this very specific variant for structuring the contract price system M. Savov takes as his point of departure that creation of the most optimum structure of the international socialist division of labor and--on that basis--of the most efficient structure of trade among the CEMA countries is possible only if there exists a mutually advantageous and economically sound system of prices in mutual trade, a system that sufficiently reflects the level of socially necessary expenditures of labor in those countries. M. Savov, who has been an active participant in all stages of the work done to create a CEMA price base, concluded in his analysis of the results obtained that the difficulties which must be encountered in an attempt to shape a complex system of accounting prices suggest the need to seek a variant that can be implemented with relative ease in practice. In his opinion there are at least two reasons why this function might be served, say, by the wholesale prices of the Soviet Union: first, in the specific context of the cooperation of the CEMA countries the relations of prices determined in any model or system which more or less correctly reflects the socially necessary expenditures of labor within the limits of the commonwealth, though with certain deviations, are as a rule very close to the relations of domestic wholesale prices in the Soviet Union; second, for a long time now there has been a manifest tendency for the level of the contract prices of the two principal commodity groups--mineral raw materials and machinebuilding products--to approach the level of the wholesale prices of the Soviet Union, which is the principal supplier of commodities in the first group and the principal consumer of products of the second group on the market of the CEMA countries.

In one of his books (1971) devoted to a study of the problem of improving the prices of the world socialist market M. Savov writes straightforwardly that "under present conditions a system of contract prices might be set up that uses as the base for setting contract prices on a bilateral basis the relations of the new wholesale prices of the Soviet Union, minus the turnover tax, on all the most important commodities in mutual trade in whose export and import the USSR has a predominant share."²⁰ Supporting his proposal with more detailed argument, M. Savov goes on to emphasize that this system of contract prices "should be very flexible and act as a kind of

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transition to a more refined system of contract prices, which would reflect to the greatest degree the relations of the socially necessary expenditures of the CEMA countries.... The transition to the system of contract prices based on relations of USSR wholesale prices would help to gradually overcome the defects of the system of price determination now in effect and would play a constructive role in the economic development and economic cooperation of those countries."²¹

As even the author himself notes, his proposals have met with objections, among which he refers, for example, to such objections as the fact that the Soviet Union's wholesale prices are oriented toward solving predominantly domestic problems in economic development; the possible difficulties related to further improvement of the system of wholesale prices of the USSR when they do not coincide with the interests of the partner; the diminished possibility for contract prices to take into account the achievements of world scientific-technical progress when world prices cease to serve as their base. In addition, he calls attention to what we consider to be a very vulnerable aspect of the variant calling for the transition to the wholesale prices of the USSR, which is that the Soviet Union would then be unable to realize those advantages afforded it by the international division of labor, since its domestic prices and prices in foreign trade would become identical, and economic efficiency stands at precisely unity, though for the other side the possibility remains of utilizing the difference between domestic and foreign trade prices that arises through trade. This variant (and this is admitted by the author himself) promotes development of cooperation primarily on a bilateral basis.

Consistent with the conditions of the variant that calls for the system of contract prices to be structured on the basis of the wholesale prices of exporters to the world socialist market, which is also well known, mainly in the economics literature,²² these prices would be based on three economic indicators: the exporter's wholesale price, the importer's wholesale price and the world price. Here the role of the initial economic criterion would be assigned to the exporter's wholesale price, which is adjusted on the one hand by the world price and on the other by the importer's wholesale price, assuming there is a need and if the latter price is acknowledged to be a sufficiently representative category.²³

In the opinion of the originators of this variant, which uses as a criterion the objective level of the exporter's wholesale price, one can imagine the following feasible lines of adjustment. For example, the situation in which the exporter's wholesale price is lower than the importer's wholesale price, but the exporter has been given a sufficient incentive to engage in trade, will obviously not be conducive to the emergence of adjustment activity on the part of the importer's wholesale price, since in this situation he is already obtaining the goods he needs at comparatively more advantageous conditions than were he to produce them himself.

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In all probability the role of the importer's wholesale price will be mainly passive both when it is equal to the exporter's wholesale price and when there is a negligible difference between them to the importer's advantage. We evidently should expect the greatest activity from this economic criterion in the case when the importer's wholesale price substantially exceeds the exporter's wholesale price. Then the level of the importer's wholesale price compels the exporter either to take steps to lower costs and accordingly prices or to give up exporting. And finally, an importer with a lower price level than that of the exporter may take over his role entirely. In any case involvement of the importer's wholesale price as an economic criterion in the process of price determination will mainly be conducive to a drop in the level of prices in trade on the world socialist market.

A different role would be played in the adjustment process by the factor of world prices, which in this case are important primarily as a realistic alternative criterion for both exporter and importer simultaneously. A direct comparison of contract prices based on the exporter's wholesale prices with world prices affords the possibility of obtaining information very important to price determination of the CEMA countries concerning achievements in the fields of science and technology and the principal trends in world economic development, to take into account all the constructive experience of international trade, and to see the limits of quantitative discrepancies between contract and world prices. Specifically, the countries might, say, take into account objective information on the proportion of discrepancy between world prices and wholesale prices in the process of adjusting the contract prices, when exporters and importers are agreeing on conditions for distribution of benefits and losses through the price.

Thus the variant for improving contract prices in which the wholesale prices of exporting producers are the initial criterion is, as we see, aimed in principle at active involvement of the production sphere in the process of foreign trade price determination. This is indeed the principal virtue of this variant, since it proposes an effective solution to the problem of prices in the context of integrational forms of cooperation. Yet at the same time this variant also has a serious defect, because the task of future improvement of prices relevant to such an important form of cooperation as foreign trade is almost entirely lost sight of in this version. Distinguished by the one-sidedness of its approach to the problem, a feature it shares with the other proposals already considered, this variant also fails to solve the problem in a comprehensive way as required by the present stage of economic cooperation of the CEMA countries.

It would seem that this very need for a comprehensive solution to the problem of prices was the principal reason for the emergence of the latest variant, the one that proposes the method of a differentiated and multifactor approach to foreign trade price determination. To be sure, this recommendation has still not been widely discussed in the economics literature, but has only been expressed at scientific conferences or included in certain work done on the problems of improving contract prices. Nevertheless, in

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the situation where cooperation takes a variety of forms, when alongside the expansion of mutual relations in the sphere of foreign trade proper many integrational forms of production-technical cooperation have begun to develop at a fast pace, this direction in price determination is up-to-date and legitimate. The emergence and development of new integrational forms of cooperation, which stand alongside the traditional relations of foreign trade and which are based on profoundly organic and long-range economic relations within the stage of production itself, the increasingly complex nature of cooperation and its ever greater complexity and depth, as experience has shown, are imposing specific new problems on the practice of price determination, problems which do not submit to a single unambiguous solution based solely on a base criterion, but which urgently call for additional consideration to other price-forming factors as well, factors that ensure the possibility of a selective and differentiated approach and for taking into account those conditions under which the prices will actually be functioning.

Since it is obvious even now that the process of differentiation in price determination will in future develop primarily along the line, first, of improvement of the system of contract prices serving traditional relations in foreign trade proper, and second, along the line of creating an effective system of contract prices for the new integrational forms of cooperation, the principal attention of researchers in the field of price determination has naturally been concentrated in recent years on these two directions.

Moreover, in the opinion of advocates of this point of view, it is still fully and decisively important to the conduct of foreign trade, the terms of which are constantly being compared to possible alternative terms of sale on other markets, that the base criterion be adjusted (ochishchennyye) world prices, which characterizes the level of international value on a worldwide scale, though in certain cases, when necessary, regional value criteria might also be involved as objective economic factors.

As for the second direction in improving the system of contract prices of the CEMA countries--that which pertains to specialization and industrial cooperation, to pricing the products of joint enterprises, and to be used in drafting long-term comprehensive special-purpose programs and the like, in this field of price determination, in the opinion of many specialists, in addition to the use of world prices as the base factor in determination of contract prices, an active part should also be assumed as a rule by other price-forming factors, especially those which reflect the conditions of production and distribution within the limits of the economic cooperation of the CEMA countries.

It is therefore not surprising that in the process of developing the method of the multifactor and differentiated approach, which reflects the principal peculiarity of the present stage of study of the problem of price determination on the world socialist market, the principal discussion has essentially moved from the search for a base criterion absolutely suitable in all cases to determination of contract prices to the selection and compatibility of a

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set of economic reference standards which could be varied in such a way as to ensure highly effective and mutual advantageous cooperation among the CEMA countries depending on each specific form of cooperation not only at the present, but in the future as well.

Since the problem of devising a set of economic criteria necessary and adequate for management of the process of price determination in the context of the differentiated approach has already been discussed in periodicals and at the International Conference on Price Problems (Moscow, 1975), we can even now distinguish the initial reference standards which have been mentioned in the discussion.²⁴

1. The price level of the principal commodity market--this, which is the present price base, is also proposed for continued use as an initial criterion reflecting average world conditions of production and distribution, especially so as to take into account progressive tendencies in the movement of prices on world commodity markets.
2. The wholesale price of the principal exporter on the world socialist market from among the socialist countries. It is proposed that this reference standard be used to characterize the lower level of contract prices beyond which the benefit of exporting falls below income from sale of the same product on the domestic market.
3. The wholesale price of the principal importer from among the socialist countries. This reference standard would be applied to reflect the possible upper level of contract prices, exceeding which would in principle make the transaction economically disadvantageous for the importer.
4. The previous level of contract prices, which is included for the sake of comparison.
5. Actual contract prices formed in the trade of individual socialist countries with third countries. Like "real" world prices, they are called upon as a control or reference criterion when the base level of the contract price is being agreed on.

Consequently, the principal feature of the method of the multifactor approach to price determination lies in the fact that whereas it adheres as before to the principle of using world prices as the initial base, it still makes it mandatory that contract prices be determined in a comprehensive way so as to take into account as well other objective economic criteria of the different value levels. For that reason this is a very fruitful direction for price determination to take in the period of socialist economic integration, when mutual cooperation is constantly being enriched by new and ever more varied forms.

This brief digression into the history of the issue, which has focused on the principal stages in development of the theory and practice of foreign

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trade price determination of the CEMA countries, makes it possible to understand more profoundly the logic of the evolution of economic thought in this field, to evaluate more objectively the place and role of prices in the process of reproduction, especially at the level of foreign economic relations, and to imagine in a more three-dimensional way the highly ramified network of economic relations which the price has in the mechanism of economic cooperation of the countries of the world socialist economic system.

From the standpoint of the range of its economic interaction in the system of world-economic and national-economic relations the price belongs in our opinion to the class of the most active economic instruments. The principal reason for this is that as an economic category through which the "transmission line" to and from the national economy and the external market must pass, the price has direct access not only to the sphere of foreign economic cooperation, but also into the national economy of individual countries. Accordingly the problem of rationalizing the system of contract prices of the CEMA countries has a domestic along with its external economic aspect.

The external economic aspect of improving the system of contract prices, which above all includes the problem of creating through prices a preferential material interest on the part of those countries in mutual exchange of the results of their economic activity by comparison with general world conditions of trade and the conditions of trade on the markets of third countries, also presupposes that one of the first problems to be solved is that of the character of the interrelation formed between contract prices and their initial base--world prices. In order to constantly maintain economically sound relations between world and contract price levels, the CEMA countries accordingly study the conjuncture of the world market on an ongoing basis, analyze the causes of price changes in international trade, compare the dynamic behavior of world and contract prices, work to improve the methods of adjusting the world prices used as a base, and finally, in each successive revision of contract prices they regularly bring them into the necessary correspondence with this base. Once in possession of the relevant information, the countries are able to act in good time and take into account the necessary set of objective economic conditions of cooperation in regulating the formation of economic interrelations between contract and world prices, above all in the interests of developing mutual cooperation and its integrational forms in particular.

Another of the lines of improvement of the contract price system from the standpoint of its direct impact on the financial results of external economic exchange is the further spread of profit-loss (khozraschetnyye) conditions to external economic activity, and one of the ways of doing this is to establish a system whereby the foreign trade entity has a material interest in and responsibility for the level of export and import prices actually obtained in foreign trade.

The urgent need to expand profit-loss functions of foreign trade prices is also arising because of their status as a category which stands at the

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junction between the national economy and the external market, which, incidentally, accounts for the essentially domestic economic aspect of examination of the problem of improving price determination in the mutual trade of the CEMA countries. In other words, since the specific ways and methods of solving particular economic problems in any country are devised above all in accordance with the general lines of planning and management of the national economy as a whole, the system of price determination in mutual trade, which is one of the components of the overall mechanism of management of external economic relations, is also susceptible of improvement and development only in an inseparable unity with that whole, which determines the basic conditions and parameters of its functioning. Accordingly solving the problem of strengthening profit-loss relations between the external and domestic sectors of the national economy, which can be achieved mainly by imparting the necessary material incentives to all participating in external economic activity, depends above all on the kind of organizational and economic framework which the present mechanism of cooperation sets up for the various economic entities, on the kind of economic standards used to regulate and evaluate their performance, and on the character of the profit-loss interrelations between industry and foreign trade.

As shown by a study of the experience of individual CEMA countries, each country, in the context of the peculiarities of the mechanism set up for management of external economic relations, establishes a corresponding procedure for pricing export and import products, shapes the character of interrelations between domestic and foreign trade prices that is the most rational from the standpoint of the existing economic regime, and takes other steps to strengthen profit-loss interrelations between the domestic and external sectors of the economy. At the same time research is undoubtedly interested in the conduct of a comparative analysis of the dynamic behavior of contract and wholesale prices, the results of which provide very valuable and objective information on how motivated the countries are in material terms to export various groups of commodities and also to use imported goods. With the help of this information one can considerably invigorate the role of prices in the conduct of export-import policy and in making it more effective.

Again in the context of the domestic economic aspect of improving the system of contract prices, there is also analytical promise in our view in comparing contract prices with the level of retail prices on consumer goods, since these comparative data make it possible to furnish a sufficiently sound answer to the question of the extent to which the present system of relations between contract and domestic retail prices is on the one hand stimulating exports and on the other stimulating consumption of imported goods.

Such an analysis, pursuing the two basic aspects of the price category's use in the mechanism of economic cooperation of the CEMA countries and conducted through the prism of the characteristic tendencies in price movement which have been externally manifested in a comparison of the dynamic behavior of contract prices with various value indicators, is unquestionably fruitful

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from the methodological standpoint. At the same time we cannot but agree that the promise of a study of this problem could be considerably broadened and deepened if attention is first concentrated on a number of conceptual theoretical and methodological principles so as to reveal the essential characteristics of the foundations of the development of foreign trade price determination of the CEMA countries.

It is in this connection that much attention is paid in the monograph to the economic nature of the category of the foreign trade price, and this in turn made it necessary to work out the straightforward initial theoretical positions in undertaking to solve the problem of the character of the participation of international, regional and national value in the process of determination of the prices of the international market of the CEMA countries and accordingly the problem of selecting a rational value base for those prices. Moreover, the author also examines such problems as the effectiveness of the principles of price determination applied by the countries; manifestational peculiarities in the principal functions inherent in contract prices; and the character of the impact which the economic laws of the socialist economic system have on those prices. An attempt is also made in the book to provide a definition of the economic category of contract prices.

One of the chapters is wholly devoted to an analysis of the system of contract prices that serve the mutual foreign trade turnover of the CEMA countries. On the basis of a study of current practice in the determination of prices in foreign trade and with reference as well to prior experience in this field, its advantages and shortcomings are revealed, in particular from the standpoint of the present conditions of economic cooperation.

An important place is taken up in the book by an examination of the problem of price determination in the context of integrational forms of cooperation, especially in the light of a study of the prospects for the further spread of profit-loss relations into the field of planning and coordination of national economic plans, which has fundamental importance to establishing organic interrelations between planning and the system of commodity-money relations. In our view it is very urgent to pose this problem at the present time in connection with the emergence of qualitatively new tendencies in price determination resulting from the intensive development of the integrational forms of planned cooperation, which are setting forth their requirements concerning the present system of foreign trade prices and are at the same time opening up broad prospects for their more active participation in forming the principal value proportions in production, trade and consumption in the very stage of planning and coordinating national economic plans.

Particular attention has been aroused in the problem of the interrelationship of domestic and foreign trade prices mainly because of the following considerations: first, the countries have already acquired quite sufficient experience to make the necessary generalizations and to analyze the different variants for solving the problem of selecting specific methods of establishing a closer economic interdependence between these prices. Second,

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having been persuaded by experience that the profit-loss system has a beneficial effect on development of foreign economic activity, a number of countries are even now showing an interest in continuing the search for still more effective forms of these relations.

Since the principal aim of this monograph was to participate as fully as possible in developing the methodological elements of a system of contract prices which might vigorously promote achievement of the necessary objective conditions for mutually beneficial exchange and stimulate development of integrational forms of cooperation, the book ends with a presentation of the author's point of view concerning the prospect for further improvement of the system of contract prices, which serves as an exceedingly important instrument in the mechanism for planning cooperation of the CEMA countries.

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FOOTNOTES

1. "Materialy XXV s"yezda KPSS" [Materials of the 25th CPSU Congress], Moscow, Politizdat, 1976, p 56.
2. Ibid., p 9.
3. "VII s"yezd Pol'skoy ob'yedinennoy rabochey partii" [Seventh Congress of the Polish United Workers Party], Moscow, Politizdat, 1976, p 118.
4. "XI s"yezd Bolgarskoy kommunisticheskoy partii" [11th Congress of the Communist Party of Bulgaria], Moscow, Politizdat, 1977, p 83.
5. "XV s"yezd kommunisticheskoy partii Chekhoslovakii" [15th Congress of the Communist Party of Czechoslovakia], Moscow, Politizdat, 1977, p 23.
6. Zolotarev, V. I., "Mirovoy sotsialisticheskiy rynek" [The World Socialist Market], Moscow, Mezhdunarodnyye Otnosheniya, 1970, p 191.
7. Ibid., p 203.
8. "Sbornik dokladov predstavlenykh na mezhdunarodnuyu nauchnuyu konferentsiyu po voprosu o vozmozhnykh putyakh perekhoda k sobstvennoy baze tsen v trgovle mezhdru sotsialisticheskimi stranami" [Collection of Papers Presented at the International Scientific Conference on the Problem of Possible Ways of a Transition to a CEMA Price Base in Trade Among the Socialist Countries], Moscow, CEMA, 1976, p 243.

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9. Popov, K. I., "Razvitiye ekonomicheskikh svyazey stran sotsializma" [Development of the Economic Relations of the Socialist Countries], Moscow, Mysl', 1968, p 139.
10. Oleynik, I. P., "Mirovoye sotsialisticheskoye khozyaystvo" [The World Socialist Economy], Moscow, Mezhdunarodnyye Otnosheniya, 1969, pp 273-274.
11. VOPROSY EKONOMIKI, No 10, 1967, p 84.
12. Mateyev, Ye., "Mezhdunarodno razdeleniye na truda i narodnostopansko planirane," Sofia, 1967, pp 27-28 and 29.
13. "Sbornik dokladov ...," p 94.
14. Zhukov, V. N., Ol'sevich, Yu. Ya., "Teoreticheskiye i metodologicheskkiye problemy sovershenstvovaniya tsenoobrazovaniya na rynke SEV" [Theoretical and Methodological Problems of Improving Price Determination on the CEMA Market], Moscow, Nauka, 1969, p 158.
15. D'yachenko, V. P., "Problemy planovogo tsenoobrazovaniya" [Problems of Planned Price Determination], Moscow, Nauka, 1974, p 455.
16. Ibid., p 458.
17. Ibid., p 450.
18. Tarnovskiy, O. I., Mitrofanova, N. M., "Stoimost' i tsena na mirovom sotsialisticheskoy rynke" [Value and Price on the World Socialist Market], Moscow, Nauka, 1968, p 205.
19. See, for example, Savov, M. N., "Tsenoobrazuvane na svetovniya sotsialisticheskoy pazar," Sofia, 1971; by the same author, "Sotsialisticheskata ikonomicheskaya integratsiya--v"nshot"rgovski i tsenovi problemi," Varna, 1975; also see: Velichkov, N., Tarnovskiy, O., and Savov M., "V"nshotorgovskoto tsenoobrazuvane pri sotsialisticheskata ikonomicheskaya integratsiya," Varna, 1976, Chapter 3, Section 4.
20. Savov, M. N., "Tsenoobrazuvane ...," p 96.
21. Ibid., p 100.
22. See, for example, PLANOVoye KHOZYAYSTVO, No 4, 1974, pp 48-49.
23. The point is that from the methodological point it is by no means a matter of indifference in this case whether the importer's wholesale price was established on the basis of domestic production costs of that country, when in addition to the import there is domestic production of the same or a similar commodity in comparatively large volume, or

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whether this is a price that is oriented toward the price of purchases of goods on a foreign market, since within the country there is no production of that commodity or production is very small. In the latter case it would obviously be illegitimate to recognize the wholesale price as a corrective economic criterion, since this reflected price is not "operative" in practical terms, and in and of itself it determines nothing and describes nothing. Matters stand quite differently when we are talking about the price of goods whose domestic wholesale prices are set on the basis of the national socially necessary production cost. Such prices will actively participate as an equal and objective economic criterion in the setting of contract prices.

24. "Puti i metody sovershenstvovaniya sistemy tsenoobrazovaniya v trgovle stran-chlenov SEV. Materialy mezhdunarodnoy nauchnoy konferentsii" [Ways and Methods of Improving the System of Price Determination in the Trade of the CEMA Member Countries. Materials of an International Scientific Conference], Moscow, CEMA, 1977, pp 133, 347 and 359.

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Chapter 1. The Economic Nature and Principles of Price Determination Operative in the System of Mutual Economic Relations of the CEMA Countries

In his classic definition of the price as the money form of value K. Marx singles out what seems to us two methodologically important aspects of the problem--the essential content of the price (value) and the character of the most highly developed form of its manifestation (expression in terms of money). As is well known, this definition culminates the study Marx made of the genesis of the forms of value--from the simple individual form to the general equivalent and finally the money form.

Strictly consistent in following the stages of development of the process of exchange, K. Marx sets forth the basis of the social character of value, which is manifested in the social relation of one commodity to another. He writes in "Das Kapital": "The producer--both in industry and in agriculture--when viewed in isolation, is not producing a value or a commodity. His product becomes value and a commodity only when a certain combination of social relations obtains. First of all, since that product figures as an expression of social labor, that is, since that producer's own labor time is a part of social labor time in general; and second, the social character of the producer's labor is manifested in the money character of his product and in its general exchangeability, defined by the price as the social character inherent in his product."¹

Thus the surpassing scientific value of K. Marx' doctrine concerning value and price lies not only in the fact that he was able to expose the nature and character of the profound organic interrelations existing within value as a social relation with its external manifestation in prices, but also and especially in the fact that he was able to discover and demonstrate that the money form of this manifestation is an obligatory pattern in the context of an advanced commodity economy. This is evident, for example, from the following proposition: "... only an analysis of commodity prices led to determination of the magnitude of the value, and only the general money expression of commodities made it possible to fix their character as values. But it is this final form of the commodity world--its money form--that conceals the social character of the individual labor efforts behind things and consequently the social relations of the individual workers, instead of revealing these relations in all their purity."²

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The explanation which K. Marx offers in "Das Kapital" for the inevitability of the expression of social production relations coming about in the process of creation of the value of commodities through the form of the price, which comes about in the course of their real exchange with respect to a money equivalent, still remains the only reliable key to a scientific understanding of the essence of this economic category.

That is why in setting ourselves the task of analyzing the economic nature of the prices operative in mutual trade of the CEMA countries we must first use this key and begin by analyzing the practice in determination of the prices of the world socialist market.

From our viewpoint it is advisable and legitimate at the very outset of the analysis to note first of all a fact which is fundamentally important to clarification of this issue, which is that for a rather long time price determination has been based on the use of adjusted prices of the leading commodity markets. From this follows another equally important conclusion to the effect that in this case the system of contract prices must have the same value base as world prices, specifically: the international value on a worldwide scale. The theoretical and methodological legitimacy of these conclusions is confirmed, in our view, above all by the fact that although world prices reflect the character of movement of international value only in the form of the most general tendency, once they have been freed of distortive overlays, one can as a rule reveal the objective nature of this category to such an extent that it becomes possible to use it as the base for contract prices.

Analyzing this aspect of the problem, we once again take as our point of departure the description which K. Marx gives in Volume 3 of "Das Kapital" of the operation of the mechanism of price determination in the capitalist context by reducing the individual expenditures of the labor of individual producers to socially necessary expenditures. In application to the character of price determination of the world capitalist market Marx' general scheme is further concretized in that the place of the individual expenditures is in this case taken by the socially necessary expenditures of the countries, which as a result of competition are reduced to the socially recognized international value.

And correspondingly in the context of the international market of the CEMA countries this mechanism ought to function, in the opinion of Prof N. V. Bautina, as follows: "The international value is the center of fluctuation of the national values. The national values may be higher than the international value, lower, or equal to it as a function of the state of national and international conditions of production."³

But the peculiarity of price determination on the world socialist market under present conditions lies in the fact that the international value is, as it were, introduced there together with the base world prices in an already finished form, so that the effect of national values is not taken into

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account. But this international value becomes "definitively" socially acknowledged only after consideration has nevertheless been given (indirectly, to be sure) to the influence exerted on it by national values (for example, at the moment when domestic prices are compared with foreign trade prices in calculation of the degree of benefit, in formation of the optimum composition of exports and imports, when more advantageous goods are being chosen), as well as to the effect of the conditions of the accepted practice whereby exporters and importers agree on the specific prices to be taken as the base. In other words, when he examines the initial materials during the process of agreeing on the prices of commodities, the exporter usually selects prices advantageous to him, since they cover his production costs, and the importer, looking to his own level of production costs, advocates prices which suit his material interests. In the negotiations, then, both sides name prices which correspond to their idea of the advantageous nature of exchange, there-after agreeing to some particular variant in the process of "bargaining." In the final analysis this inevitably leads to selection as the base world prices those whose level is relatively closer to the domestic conditions of production in the CEMA countries and which thereby actually promote a kind of mediated participation of the national value criteria in determination of the contract prices.⁴

Another peculiarity of foreign trade price determination of the CEMA countries is related to application of the principle of state monopoly over foreign trade.

The use of this principle constitutes not only an important distinguishing trait, but also an undoubted advantage of the socialist mode of production, which is based on public ownership of the means of production. Analyzing the nature of state monopoly of foreign trade, S. I. Nizhnyaya and V. M. Shastitko, for example, describe in this way the political-economic essence of this category in the context of socialism: "State monopoly of foreign economic activity ... results from a number of essential traits of the socialist economy: first of all, socialist ownership, the basic economic relations, and the conformity of development to a plan."⁵

Establishment of state monopoly over foreign trade affords the possibility that decisions aimed at carrying out the tasks of centralized foreign economic policy, guided by the system of measures regulating development of trade relations with various partners, can be taken in the name of a state and from the vantage point of the national economy. At the same time, since the principle of monopoly over foreign trade is applied by all CEMA countries, there are no sort of one-sided privileges or restrictions monopolizing the position of one of the partners vis-a-vis the others in the character of the mutual economic relations among them, nor can there be. The monopoly over foreign trade thus ensures relations of equality in the partnership among countries with the socialist type of ownership. This in turn is correspondingly manifested in the determination of foreign trade prices, which are set on a mutually advantageous basis and by mutual agreement of all participants in cooperation, consideration being given to objective

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changes in the conditions of production and distribution, without infringing on the interests of any one of the partners. As for the character of the impact which the monopoly of foreign trade has on the value nature of foreign trade prices, in this case a sufficiently clear response is given, in our view, by the following statement of V. I. Lenin made in an interview given to a correspondent of THE MANCHESTER GUARDIAN in late 1922: "The monopoly of foreign trade, I would note in passing, helps us to keep the NEP-man [economic entity in the time of the New Economic Policy--translator's note] in hand, since prices will be set beyond his control by the production price abroad plus our state premium, which goes to subsidize production."⁶ Thus, as V. I. Lenin saw it, the principle of the monopoly over foreign trade is fully combined with the use of the price of production as a specific modification of the international value on a worldwide scale as the value base of foreign trade prices under the conditions of the socialist economic system.

The prices of the world socialist market, moreover, has inherent specific traits which are in general characteristic of prices at the international level and which are related to quantitative measurements of the socially necessary expenditures of labor to produce the commodities circulating in foreign trade.

Consistent with the doctrine of K. Marx, the magnitude of value is determined only by that amount of labor expended in production which would be expended at the average level of skill and intensity in the given society. This average is, moreover, obtained by reducing the individual expenditures of labor reflecting the differing levels of the productivity and intensity of labor to the socially necessary level. We note here that though the difference in the intensity of labor of individual producers is manifested in the formation of the individual value of commodities, differences in labor productivity do not have an impact in this case. As K. Marx notes, "a change in the productive value does not in and of itself have any effect whatsoever on the labor represented in the value of the commodity."⁷ But this mechanism of reducing labor to its average unit is operative only in the context of a national economy.

The situation is different in international trade, which K. Marx demonstrates in Chapter 20 of Volume 1 of "Das Kapital." As Marx notes, the process of formation of international socially necessary expenditures of labor is characterized by two principal peculiarities. The first of them is that in the formation of the international value the different intensity of labor in different countries is not evened out in the average unit of labor, and as a consequence the country with a higher intensity of labor realizes a greater value in exchange, since its commodities, though produced in the same worktime as in other countries, have absorbed more labor and therefore have a higher international value and correspondingly higher price. The second peculiarity is that in international trade labor that is more productive also figures as labor that is more intensive, with those same consequences for the international value and the price of the commodities of the

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more productive nation. These peculiarities in the quantitative determination of the magnitude of the international value and of its reflection in the prices of international trade can in our view be quite legitimately extended to the conditions of trade among the CEMA countries, which use world prices as the basis for their prices in foreign trade.

But recognition of the methodological legitimacy of such analogies--and this we must emphasize with the full force of principle--is entirely and exclusively restricted to the fact that in quantitative terms both world prices and contract prices are based on the international value, but by no means does it signify that they also have the same socioeconomic nature. N. V. Bautina, for example, remarks in this connection:

"Under present conditions ... the international value, as a social property of things circulating on the world socialist market, reflects ... the pattern of world economic relations, and only when examined in quantitative terms does it appear the sole world value. It is an international value in its appearance, but not in its essence."⁸

The economic essence of the nature of value and correspondingly of prices is determined by the prevailing type of production relations, which are fundamentally different under capitalism and socialism. In the context of the capitalist mode of production the exchange of commodities takes place as exchange of the products of capital whose prices are the means of realizing the surplus value created under conditions of exploitation and appropriated by the class of the owners of the means of production, whereas in the socialist mode of production the prices of commodities are the means of realizing the surplus product created by directly social labor and constituting the property of all the people and the national wealth of the socialist countries.

Strictly speaking, the analysis of the character of the relations that come about between the value and the price in the mutual trade of the CEMA countries might end with an examination of this group of problems if that analysis were limited to clarifying this problem solely insofar as it concerns the system of price determination that has taken shape. If we attempt to expand the frame of the analysis somewhat and imagine with a look into the future the possible character of price formation, say, in the context of implementation of long-range integrational programs or some other form in which production is the predominant line of cooperation, then it seems that we will inevitably have to confront tendencies of a different kind in the process of determination of these prices.

For instance, if we assume that use of estimates on an intrasystem scale, estimates oriented toward the cost levels of the principal participants in the given specific form of cooperation as long-term and constantly operative value criteria, is more suitable to the long-range character of cooperation, then in our point of view there is every reason to assume above all development of a tendency toward ever more active participation of the national

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values of the individual countries in determination of the prices of products produced under those conditions. To some extent this will be promoted by a certain modification of the functions of foreign trade, which within the international economic complexes of the CEMA countries is already becoming in essence a mere complement to the principal configuration of cooperation, which is production, a form of cooperation which ends with sale of the product at prices which will be determined in the stage of production and will therefore be based predominantly on the national socially necessary expenditures of the individual countries. Accordingly, development of these tendencies, in our opinion, may in future gradually lead to the need to first take into account the national and regional socially necessary expenditures of labor when prices are being determined for products created under conditions of long-term production and technical forms of cooperation.

In this connection there, of course, arises legitimate interest in examining the most characteristic features of a possible mechanism of determining contract prices on the basis of regional socially necessary expenditures of labor.

In our view, as an economic category regional socially necessary expenditures of labor essentially represent a particular modification of the international value on a regional scale, which is determined in a planned manner with the participation of the national expenditures of the individual CEMA countries. But since this process is at present still only in its very initial stage, we can state only certain general considerations on this subject.

We should emphasize first of all that the regional socially necessary expenditures constitute only that nucleus of value which determines the basic economic outlines of the future real prices, because the character of price determination on the basis of regional expenditures also presupposes that consideration must be given to the impact of a number of objective price-forming factors, first of all the factor of the relation between demand and supply,⁹ which can introduce very substantial adjustments in the process of price determination. Another reason why it is urgent to take this factor into account is that in the past due attention was not always paid either in theory or practice to the study of the consequences of its impact.

In the opinion of many economists of the CEMA countries, there is an objective necessity for price determination to take into account the relation between supply and demand as the direct result of interaction between production and consumption, which under the conditions of a planned socialist economy has been given a qualitatively new solution. This is because under socialism, thanks to the planned nature of production and distribution, the relation that takes shape between demand and supply on the world socialist market ceases to play the role of a mechanism by which the law of value--haphazardly, through market relations--regulates the conditions of production and pricing, as is the case under capitalism. The process of the formation of relations between supply and demand is governed by planning and to an ever greater degree takes place before exchange begins, in the stage of

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planning and forecasting volumes of production and consumption, in the stage of coordinating the national economic plans of production and foreign trade, and in the drafting of long-term integrational programs and other production and technical lines of cooperation. This fundamentally predetermines as well the conformity to plan of commodity-money relations between socialist countries, for whom price changes resulting not from objective necessity, but are engendered by haphazard and unorganized production of commodities, are alien.

These cardinal qualitative changes in the role of the supply and demand factor have become possible thanks to the fact that the CEMA countries, unified in the socialist commonwealth, manage their economies on the principles of planning and carry on with one another the planned exchange of the results of economic activity. In the process of that cooperation increasingly close relations are established between production and consumption, and those relations are constantly becoming stronger as methods of joint planning activity are improved, as multilateral relations develop, and as a thorough study is made of the resources available, of production capabilities and of the economically sound requirements of the domestic and international markets of the CEMA countries.

However, since the results of realization of the relations between demand and supply set forth in the plan are ultimately fixed and verified in real terms under the conditions of exchange, it is obvious that a constant watch must be kept on the conjuncture of the international market of the CEMA countries, which must be analyzed so that relevant information can be registered in good time in the process of joint planning activity and in determining levels and proportions in the prices of products involved in various forms of cooperation. Moreover, if under the conditions of contemporary capitalism market analysis serves the interests of monopolistic competition, the principal task of analysis of the conjuncture of the international market of the CEMA countries consists of improving the planned organization of production and exchange in order to satisfy to the maximum the needs of the national economy of the socialist countries and to establish prices conducive to effective development of the socialist economy.

It would thus seem especially characteristic of the process of price determination in the context of the integrational forms of cooperation that the supply and demand factor would be taken into account right in the stage of planning and production, which would ensure the objectivity of the formation of regional socially necessary expenditures as the basic criteria.

One of the unfailing conditions for establishing contract prices on the basis of regional socially necessary expenditures must also be that of taking world prices into account as a factor characterizing the possibilities of sales at the level of the requirements of the world market.

Ordinarily the level of the alternative and competitive price is regarded as a price-determining factor operative in the distribution sphere. But in the

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situation that comes about in a domain where prices are determined on the basis of regional value and when it is proposed that world prices be used as one of the criteria in determining contract prices, they (the world prices) should in our opinion be regarded mainly as a very important objective indicator of the allowable level of production costs of the export goods of the CEMA countries. Correspondingly, so that world prices in the context of production-technical cooperation should effectively stimulate higher labor productivity, technical progress and lower production costs, they should be taken into account as a price-determining factor in the very process of the production of commodities, when there is still a possibility of comparing them to the regional level and taking vigorous steps to raise production efficiency. If world prices are brought in for comparison only in the stage of the commodity's sale, then this post factum comparison of production cannot yield the benefit required, since the act of the sale in these forms of cooperation merely totals up the results of overall economic activity. At best the results of that comparison might be borne in mind for the future if by that time they are still relevant.

It is significant that in many socialist countries the progressive influence of world prices is actually taken into account in the very stage of planning domestic prices, which essentially assigns to world prices the significance of a price-determining factor primarily in the production process rather than in the process of distribution. Yet in our opinion this indirect effect of world prices on the prices of the external trade of the socialist countries is clearly insufficient. A considerably larger benefit to the agreed determination of contract prices might be obtained from a direct consideration of world prices before production begins or in any case in the production stage.

It seems to us that in that case individual commodity groups would be unequally subject to the influence of world prices. This will depend on the character and intensity of their impact on the conditions of production and distribution, which can be illustrated with the following examples.

1. Commodities produced and sold primarily within the framework of the world socialist economic system. Since the scale of their manufacture is able to satisfy the needs of all interested countries, the influence of world prices on determination of the contract prices of this commodity group obviously cannot have serious importance, especially when the average world level of production costs of analogous products is to some extent reflected in the national prices of these commodities. In this case the regional cost level becomes the determining factor in evaluating goods to be produced under the conditions of integrational forms of cooperation.
2. Scarce goods for which the demand is mainly met by the CEMA countries by production within the commonwealth. Since for this group of commodities the shortage is as a rule only made up to a negligible degree by purchases on other markets, the decisive influence on prices will be mainly exerted by the real possibility of meeting the current demand with the commonwealth's

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own resources. In this situation, of course, the factor of world prices will correct the level of regional costs still less than in the first case.

3. Goods which are scarce for the CEMA countries purchased in sizable proportion on the world capitalist market. Since possibilities of full satisfaction of demand depend essentially on inputs from outside, here, by contrast with the previous case, the prices of products manufactured under conditions of production cooperation will experience the vigorous impact of world prices. For example, when there is a shortage, high world prices can become a reason for setting contract prices higher than the level of the socially necessary regional expenditures, whereas the possibility of obtaining goods at comparatively low prices, encouraging movement of a portion of the demand of the CEMA countries to the markets of third countries, can on the other hand bring down the level of socially necessary regional expenditures if as a consequence the producers with the highest costs cease to take part in their formation, and so on.

4. Commodities which can be sold both on the international market of the CEMA countries and also on the capitalist market. Reflection of the factor of world prices in the prices of the commodities of these groups, which are based on regional expenditures, requires particular thoroughness so that because of the distortion of the indicators of comparative efficiency of production and distribution the development of nonoptimum directions of the international socialist division of labor is not encouraged in certain countries. Especial caution is also indispensable in this respect because an orientation toward this price-determining factor which has not been sufficiently thought out could give rise to an interest in preferential sale of certain commodities on the world capitalist market, and this would result in an artificial shortage of those goods on the international market of the CEMA countries.

5. Goods of the CEMA countries whose prices have an effect on determination of the prices of the world capitalist market. Since even now the prices of the international market of the CEMA markets are playing the role of one of the factors regulating the level of world prices, the effect of the latter on the process of price determination on the basis of the costs of the CEMA countries will be minimally reflected.

The scheme we have examined for the determination of contract prices on the basis of regional socially necessary expenditures of labor furnishes what we regard as sufficiently convincing evidence that the economic nature of these prices, consistently oriented toward reflection of the internal conditions of production and distribution on the scale of the world socialist economic system, will be entirely determined by the character of international socialist production relations.

Thus the socioeconomic essence of contract prices, both those based on world prices and those which will be based on regional costs, i.e., regardless of differences in the mechanism of price determination and the character of the

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base that is used, is in principle one and the same and socialist. It results from the formative effect of the laws of the socialist economy, from the implementation of socialist principles and from the application of socialist methods of price determination.

We will attempt to examine the effect on the determination of prices operative in the system of foreign economic relations of the CEMA countries of such economic laws as the basic law, the law of planned development and the law of value, each of which possesses its clearly manifested aspect of influence on this process. For instance, the basic economic law determines the principal task which the contract price system is supposed to perform--vigorous promotion of the uninterrupted rise in the standard of living of the peoples of the socialist countries in the context of integrative cooperation of the CEMA countries through mutually beneficial and highly efficient trade in raw materials, fuel and finished products.

This statement of fundamental aim and principle, which expresses the very essence of socialism's economic program, is realized in prices mainly because the effects of the law of planned proportional development, which has a regulative impact which does not bypass the mechanism of price determination, are reflected. It is thanks to this specific law of the socialist economy that the process of price determination becomes a planned process ensuring consistent conduct of the agreed pricing policy of the socialist countries, which has been defined on the basis of the requirements of the basic economic law. It is therefore significant that under the impact of the law of planned proportional development the operation of the law of value ceases almost entirely to operate haphazardly, and its role in price formation under socialism comes down essentially to fixing the socially necessary expenditures of labor already determined by the plan and to their quantitative measurement in the prices of individual commodities, i.e., to the planned formation of specific price levels and relations. With respect to the prices in effect in the foreign economic relations of the socialist countries, for which world prices serve as the base, this is manifested in the corrective transformation of the indicators of the capital market which are used so as to take into account the conditions of production and distribution that obtain in the planned economy of the socialist countries. As for the prices of commodities which will be based on regional socially necessary expenditures of labor, they will begin to take shape as planned value categories from the very outset.

The planned nature of the system of prices under socialism is their principal advantage over the prices of the capitalist economy. Expansion of joint planning activity of the socialist countries, as one of the distinguishing traits of the present stage of development of foreign economic cooperation among them, is also creating new incentives for a further improvement of the prices that serve the system of foreign economic relations of the CEMA countries. Especially large opportunities are being opened up in this respect, we believe, thanks to application of the method of economic accountability in the foreign economic activity of the socialist countries. International

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economic accountability, which uses prices as one of the most effective economic levers, makes it possible to considerably invigorate the participation of this value category in the planned management of the development of the foreign economic cooperation of the CEMA countries.

As they arrive at an ever more profound understanding of the economic laws of socialism in order to make planned use of them in the practice of mutual cooperation, by general agreement the socialist countries have for nearly two decades now been applying as fundamental pricing principles that exchange shall be equivalent and mutually beneficial and that prices shall be uniform and stable. Guided by these principles the countries are now managing the pricing mechanism in the sphere of mutual foreign economic relations.

The principle of equivalence stands out from the other principles by its very nature, its principal distinction being that the results of its participation in price determination are not manifested directly: it "governs" the deep internal movement of prices in the process of exchange. The essence of the equivalent character of the metamorphosis of the commodity in exchange was demonstrated very vividly by K. Marx in the first volume of "Das Kapital": "In its pure form the process of the circulation of commodities necessitates the exchange of equivalents."¹⁰ V. I. Lenin also emphasized that the exchange of commodities "occurs only as an exchange of equivalents."¹¹

The equivalent exchange of commodities among the socialist countries occurs, however, under the condition that in this case equivalence is achieved either in the scale of the average world expenditures of labor or in the scale of regional socially necessary expenditures of labor, if they are recognized by those countries as socially necessary. It is in this context that we take up the presentation of this issue by O. T. Bogomolov, corresponding member of the USSR Academy of Sciences, who puts the concept of equivalence in concrete terms by applying it to the conditions of mutual trade among the CEMA countries as follows: "Exchange in which expenditures of labor socially necessary from the standpoint of the world socialist economic system are compensated is indeed equivalent exchange."¹² The principle of equivalence, by establishing a sole method of measuring national against regional socially necessary expenditures, thereby furnishes all participants in exchange the objective conditions for assessing the value of their commodities, thereby ensuring equal opportunities to realize economic advantages from the international division of labor through foreign trade and other forms of cooperation.

Performance of the measuring function by the prices serving the sphere of the foreign economic relations of the CEMA countries is directly related to the principle of equivalence, since prices, having taken the form of money, acquire the capacity to express, i.e., to measure indirectly through money, that universal equivalent, that amount of value, which has been invested in the production of every specific commodity. In the works of K. Marx we find this expressed in very precise and figurative terms: "... prices, those

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loving glances which commodities cast on money, point out to the latter the limit of their capability for reemodiment and actually their own amount."¹³

The role of the principle of equivalence in this case consists of creating the necessary objective conditions for that measurement, which ensures that value estimates are made in the same scale. But, as V. I. Lenin emphasized, "reduction of value (social) to prices (individual) does not occur simply and directly, but by a very complicated route ... conformity to law cannot be manifested otherwise than in the average, social and mass pattern when individual deviations to one side or the other cancel one another out."¹⁴ As a matter of fact, K. Marx highlights the same idea when he writes: "... in the exchange of commodities the exchange of equivalents exists only in the average and not in every individual case."¹⁵

The distinguishing peculiarity of the analogous process under socialism, where the operation of the law of value is regulated by and measured against the operation of the basic economic law and the law of the planned proportional development, is that price levels and relations are formed on an equivalent basis in a purposive and planned manner. And finally, we believe it also essential to note in this connection that the collective currency of the CEMA countries--the transfer ruble--is used as the money unit whereby contract prices perform their measuring function.

If the principle of equivalence is mainly related to the operation of the law of value, then the shaping influence on the principle of stability is exerted primarily by the law of planned proportional development. Under the influence of the principle of stability the contract price system takes on relative stability, which presupposes that when necessary planned changes which are objectively required will be made in the contract prices of the entire product list or of individual commodity groups and goods. At the same time, while promoting development of stabilizing tendencies in the process of foreign trade price determination, it does not transform contract prices into a system of value indicators which are ossified in their invariability, since in affirming this principle the countries have adopted the premise that a prolonged immobility of any prices which is not economically justified inevitably makes value assessment unrealistic and out of touch, and they have always striven to prevent this in the practice of determination of contract prices. For example, contract prices remained unchanged during those 5-year periods when there was a relatively calm conjuncture in the system of prices in international trade. But when there are abrupt fluctuations in world price levels and relations the intervals of stability were shorter. Thus the principle of stability is also a dynamic principle which presupposes that changes in contract prices will be planned in advance, which gives rise to the objective possibility of current and prospective planning of commodity deliveries among CEMA countries.

As evidenced by present experience, dialectical combination of the principle of stability with flexibility in price determination is being achieved in practice in revisions of contract price levels and relations. The principal

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reasons for these revisions might be changes in the base level of world prices, shifts in the relations between supply and demand, or changes in the quality of goods which through gradual accumulation inevitably reach a point where they change the qualitative state of the goods. Thus by price flexibility we mean that they reflect in good time changes in objective conditions of economic activity both in the sphere of production and also in the distribution sphere. Moreover, the scientific character of planning within the framework of the countries of the world socialist commonwealth makes it possible to foresee and set forth in plans not only the times when these changes will take place, but also their probable size, which is a fundamental advantage of the price system in the context of a planned economy.

Experience shows that after each successive revision of contract prices they again become stable for a certain period, which varies from commodity to commodity because value changes do not occur at the same time, because the movement of their demand and supply does not coincide, and because of other factors. For example, in recent years a stronger tendency has been noted toward greater flexibility in pricing in general and especially products whose assortment is active (machinebuilding and the chemical industry). Flexibility is specifically combined with stability in pricing the products of machinebuilding in that even when a higher contract price is set on new, technically improved and better quality products, the condition is strictly observed of maintaining unchanged the average calculated level of the price per unit of product performance (if, of course, there is no possibility of reducing it). This prevents a drop in the efficiency of applying new technology.

As we might expect, the recommendation on adoption of a sliding base for contract prices in the 1976-1980 period, which was adopted by the CEMA countries in connection with the essential change in the situation in the prices of world trade in the 1973-1974 period, tended to shorten the periods of stability for most goods all the way down to 1 year. But that step is economically justified and tactically indispensable under the prevailing conditions, since it affords the possibility of bringing contract prices closer to the sharply rising level of world base prices in a planned way, in several stages with comparative leniency. In principle the observance of purposive differentiation for different commodity groups within periods of price stability and the timely changing of prices which have ceased to serve the interests of the various partners for objective reasons constitute one of the indispensable conditions for ensuring that exchange is mutually advantageous, and therefore must always be in the field of vision of science and practice in the domain of price determination.

The planned changing of contract prices is conducive to their improved performance of the measuring function and makes value assessments more objective. This is especially important to planning the volume of foreign trade turnover and other deliveries between CEMA countries, to calculations of the effectiveness of foreign economic cooperation, to discovering the most promising directions of intergovernmental industrial specialization and cooperation, to determining the basic proportions in the national economic structure

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of the various countries and to improving the character of the international division of labor within the framework of the world socialist economic system, since successful development of these processes ultimately constitutes the real foundation for stable and mutually beneficial relations among the countries of the socialist commonwealth.

Application of the principle of price uniformity (yedinstvo) also became possible only in the context of the planned foreign economic relations among the socialist countries thanks to the impact which the operation of the law of planned proportional development has on the mechanism of price determination. In practical terms this is related to the fact that to ensure the objectivity of planning calculations it is indispensable that the value indicators used be distinguished to the greatest possible degree by uniformity in their level with respect to all participants in cooperation (by contrast with the multiplicity of prices taken as the base of contract prices which are operative in the capitalist economy). Price uniformity is an attribute which prices acquire in trade on the world socialist market and which manifest the indisputable advantages of planned price determination.

The objective necessity of applying the principle of price uniformity arises out of the nature of socialist international relations, which are based on full equality and mutual trade and on ensuring effectively equal conditions for all countries cooperating through the most diverse forms.

The principal condition for observing the principle of uniformity in prices is to establish the same base price for all partners, but not equality of contract prices, which in fact cannot be equal, since in addition to this base, they also include shipping and insurance expenses, which vary from country to country as a function of actual costs. Consequently, the principle of price uniformity is not as a rule externally evident in the levels of actual contract prices, which usually differ for the same goods from agreement to agreement. This circumstance sometimes leads people to erroneous ideas because they exaggerate the size of the deviations from this principle in the practice of price determination, though in fact we should acknowledge that at the present time full uniformity of base prices has still not been achieved for a number of goods either in USSR trade with the CEMA countries or in mutual trade among them. In our opinion the reason for this is that most of the contract prices now used were established under bilateral agreements among the countries so as to take into account respective specific peculiarities of each particular pair of countries. Moreover, in a number of cases the countries have used as initial sources of information prices of different world commodity markets. Reflection of the factor of the shortage of goods has also made its contribution to the discrepancy. So the principle of price uniformity is manifested more as a tendency which possibly will be realized more consistently in the future as the practice of multilateral price revisions expands and also partially as a result of the proposed annual correction of price levels.

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One of the important constructive consequences of applying the principle of price unity in the foreign economic relations of the CEMA countries is the constant leveling out of their levels for the same commodities. This helps to ensure that value assessments are in the same scale and affords the possibility of realizing the conditions of equivalent exchange more fully.

Consequently, realization of the principle of price unity thereby ensures improved fulfillment of the measuring function by contract prices and enhances their role as an objective economic criterion. G. L. Shagalov describes the importance of this principle as follows: "The principle of price uniformity brings about a certain equalization of the indicators of the effectiveness of exporting and importing the same goods in a given country's trade with the various socialist countries which belong to CEMA."¹⁶ It is an indubitable advantage of the principle of price unity that the base value assessments are easier to see and provide convincing confirmation that true economic equality prevails for all participants in trade on the world socialist market. Successful development of many important processes in the planned economy is thus bound up with operation of the principle of base price uniformity.

In assessing the role of the principle of mutual advantage in the process of price determination we obviously should note first of all that it reflects the requirements of the basic economic law of socialism and promotes formation of precisely that system of contract prices which, by ensuring that each country obtains the highest possible price in view of the given specific conditions and tasks in the effectiveness of cooperation, can successfully contribute to solution of the most important socioeconomic problems in the CEMA countries.

The principle that exchange among CEMA countries should be mutually advantageous, which is implemented to a considerable degree through prices, will undoubtedly have great importance in the future as well because of the constant effect of a number of economic and political factors. For instance, the fact that the CEMA countries have a common socioeconomic and political system, the combination of natural-geographic factors and mutual complementarity of national economic structures, which is favorable to development of trade, the higher concentration and intensiveness of economic relations within the framework of the commonwealth as compared to international trade, the geographic proximity and sharing of borders by most of the CEMA countries afford the possibility of establishing more effective price levels and relations on the international market of these countries than in trade with third countries.

As evidenced by the experience of the various countries of CEMA, the economic efficiency of foreign trade from each country's point of view is quantitatively determined by comparing levels of foreign trade prices with domestic value assessments. The theoretical and practical expediency of applying this method of calculating the efficiency of foreign trade has been repeatedly approved, as we know, in the writings of many Soviet economists:

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O. T. Bogomolov, A. P. Borisenko, V. S. Grinev, B. D. Zotov, B. N. Ladygin, I. P. Motorin, O. K. Rybakov, V. V. Savost'yanov, G. L. Shagalov, and V. M. Shastitko--as well as by economists of the other CEMA countries. O. K. Rybakov has this to say in his monograph: "The economic efficiency of developing foreign economic relations is for any country based on the fact that domestic production costs of export goods are as a rule lower than domestic costs for the possible domestic production of import goods which the given country is able to purchase for the foreign exchange obtained from exports."¹⁷

In moving on to examine this problem from the standpoint of the distribution of the total economic benefit among countries, i.e., to the heart of the problem of the mutually advantageous nature of cooperation, O. T. Bogomolov distinguishes the special role of contract prices: "The relation of the prices of the world socialist market directly influences the indicator of the national economic efficiency of international production cooperation for the individual countries. As a function of the price level and consequently of proportions in international trade, some socialist countries may obtain a greater or smaller economic advantage."¹⁸ In other words, it follows from this conclusion that the principle of mutual advantage by no means excludes the possibility of differentiation of the size of the economic benefit which a particular country realizes from various export-import transactions.

Nor is it an indispensable condition of mutually advantageous trade that all participants in a particular agreement unfailingly obtain an equal benefit. K. Marx spoke quite definitely in this regard: "... in international trade different rates of profit of different nations turns out to be an altogether indifferent circumstance for their commodity trade."¹⁹ Here the decisive circumstance is in general the possibility of that country's attaining profit from international trade.

It is in relation to this circumstance that the prices of the international market of the CEMA countries perform the stimulative and redistributive functions which they perform in the process of mutual exchange. As experience demonstrates, the stimulative function is usually performed by prices directly, by virtue of the fact that special stimulative prices are actually set on specific types of products, and in certain cases by virtue of the fact that one-time advantages designed to serve a strictly specified purpose are afforded through prices. Taking into account, however, that adoption of a system of special contract prices will as a rule bring about an inevitable redistribution of economic advantages in the favor of only one of the countries at the expense of the others,²⁰ the countries strive not to expand this form of incentive very much so that other participants are not deprived of the necessary motivation because the objective conditions for ensuring that exchange is mutually advantageous have been disrupted too sharply.

As demonstrated, then, by the mechanism of operation of the stimulative and redistributive functions, which are closely related to many economic and political aspects of cooperation, the interests of attaining through prices the maximum benefit for all CEMA countries necessitate the most thoughtful

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and creative attitudes toward use of the principle of mutual advantage in the practice of price determination. If we now attempt on the basis of the results of our analysis to give a definition of the prices which now serve the development of economic relations of the CEMA countries, then they should, it seems to us, be described as a variety of the money form of value which is being shaped by the joint efforts of the countries on a planned basis, in conformity with the laws and principles of the socialist economy, on the basis of the international value on a worldwide scale, but with a certain consideration paid at the same time to regional socially necessary expenditures within the world socialist economic system.

This definition of contract prices as a planned value category essentially unifies, in our opinion, the two specific traits characteristic of prices in the foreign economic relations of the CEMA countries: their essence with respect to value and their planned nature, which make it possible to describe this economic category as a product of the development of planned commodity-money relations expressing the directly social character of production and exchange under socialism.

FOOTNOTES

1. Marx, K., and Engels, F., "Sochineniya," Vol 25, Part 2, p 189.
2. Ibid., Vol 23, p 86.
3. Bautina, N. V. "Sovershenstvovaniye ekonomicheskikh vzaimootnosheniy stran-chlenov SEV" [Improvement of the Mutual Economic Relations of the CEMA Member Countries], Moscow, Ekonomika, 1972, p 143.
4. It is also significant that use of this "ready-made" base, constituting a specific peculiarity of determination of the prices of the international market of the CEMA countries, is a normal result of the procedure adopted in their mutual foreign economic relations, which provides that agreements on quantitative volumes of deliveries are first concluded, and questions of prices are taken up subsequently, i.e., by a certain time interval between the material form and value form in exchange. In this context the fundamental understanding concerning specific levels of world prices, which the partners recognize as sufficiently representative base criteria, serves as the necessary guarantee that exchange will be efficient and mutually advantageous.
5. EKONOMICHESKIYE NAUKI, No 7, 1976, p 64.
6. Lenin, V. I., "Polnoye sobraniye sochineniy," Vol 45, p 268.
7. Marx, K., and Engels, F., Op. cit., Vol 23, p 55.
8. Bautina, N. V., Op. cit., p 126.

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9. The importance of the role of supply demand as a factor in price determination has been theoretically demonstrated by K. Marx back in his Economic Manuscripts 1857-1859, when he wrote; "... price is distinguished from value not only as the nominal is distinguished from the real, not only thanks to its denomination in gold and silver, but by virtue of the fact that value stands as the law of those movements which the price performed. But they are always different and never coincide or coincide only by pure accident and as an exception. The price of a commodity is always higher or lower than the commodity's value, and the actual value of the commodity exists only within the upward and downward swings of commodity prices. Supply and demand are constantly determining commodity prices" (Marx, K., and Engels, F., Op. cit., Vol 46, Part 1, p 78).
10. Marx and Engels, Op. cit., Vol 23, pp 168-169 and 171.
11. Lenin, V. I., Op. cit., Vol 26, p 63.
12. Bogomolov, O. T., "Teoriya i metodologiya mezhdunarodnogo sotsialisticheskogo razdeleniya truda" [Theory and Methodology of the International Socialist Division of Labor], Moscow, Mysl', 1976, p 135.
13. Marx, K., and Engels, F., Op. cit., Vol 23, p 120.
14. Lenin, V. I., Op. cit., Vol 26, p 68.
15. Marx, K., and Engels, F., Op. cit., Vol 19, p 19.
16. Shagalov, G. L., "Ekonomicheskaya effektivnost' tovarnogo obmena mezhdusotsialisticheskimi stranami" [Economic Efficiency of Commodity Trade Among Socialist Countries], Moscow, Mysl', 1966, p 73.
17. Rybakov, O. K., "Ekonomicheskaya effektivnost' sotrudnichestva SSSR s sotsialisticheskimi stranami" [Economic Efficiency of the USSR's Cooperation With the Socialist Countries], Moscow, Mysl', 1975, p 44.
18. Bogomolov, O. T., Op. cit., p 128.
19. Marx, K., and Engels, F., Op. cit., Vol 25, Part 1, p 193.
20. Because one sometimes encounters an opinion that altogether rejects the possibility of even a partial performance of the redistributive function by contract prices, it is evidently worthwhile to insert a reference to a statement which K. Marx made in his Economic Manuscripts 1857-1859 on exactly this question: "It follows from the fact that profit may be lower than the surplus value, i.e., that capital may be exchanged at a profit without an increase in its value being realized in the strict sense, that not only individual capitalists, but also nations as well may carry on exchange with one another perpetually and

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also uninterruptedly repeat exchange on an ever larger scale without obtaining the same profit therefrom. One nation may always appropriate to itself a portion of the surplus value of another without giving anything in exchange, except that here the standard of measurement is different than in exchange between the capitalist and the workers" (Marx, K., and Engels, F., "Sochineniya," Vol 46, Part 2, p 384). O. K. Rybakov notes this same aspect of the problem: "Any redistributive processes among states take place through the prices in effect in the mutual trade between them" (Rybakov, O. K., "Ekonomicheskaya effektivnost' sotrudnichestva SSSR s sotsialisticheskimi stranami," p 51).

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Chapter 2. Characteristic Trends of the Movement of Contract Prices for
Basic Groups of Goods

If the examination of the economic nature of the prices which operate in the system of foreign economic ties of CEMA countries, as was shown in the preceding chapter, promotes a most thorough understanding of the essence and significance of them as a special value category, the study of the dynamics of contract prices serves primarily the task of identifying the main trends, the stable interrelationships and the fundamental causes of the real movement of prices, which organically links theoretical research with the practice of pricing.

But before proceeding directly to the examination of the dynamics of contract prices, it is necessary to look into a number of questions connected with the methodology of analysis.

First, this pertains to the underlying methodological principle of research. We consider it expedient to use the method of the simultaneous parallel comparison of the dynamics of contract, world and wholesale prices, and not to confine ourselves, as is usually the case, to the study of only one series of contract prices. The use of this methodological procedure has the basic advantage that it makes it possible to avoid the many shortcomings of the discrete analysis of each type of prices separately and, what is the main thing, to increase substantially its effectiveness by means of the comprehensive comparison of three levels of prices, which characterize the main value parameters of the process of pricing in the reciprocal trade of the CEMA countries. By using this method of comparing dynamic series of contract prices, on the one hand, with world prices, which serve for them as the official reference base, and, on the other, with wholesale prices,

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which characterize the levels of the domestic production costs of the CEMA countries, a real opportunity is afforded to bring the analysis of contract prices considerably closer directly to the sources of the process of foreign trade pricing.

Second, when analyzing contract prices, especially in the process of comparing them with world prices, the consequences of such a methodological peculiarity of contract prices as the stability of their level appeared very distinctly. In particular, the gradual increase, which is typical of the past period, during the interval between the contract price revisions of very substantial shifts in the structure of their interrelations is connected precisely with the stability. The changeover to a sliding price base is certainly making its own adjustments in the dynamics of the levels and correlations of prices.

Third, the comparative analysis of contract, world and wholesale prices is made on the basis of indices which were calculated on the basis of the absolute levels of these prices with respect to the 1970 level. Preference was given to the method of indices as compared with the method of analysis of the absolute levels of prices first of all for the reason that it makes it possible to trace more clearly, and without complicating the calculations by the involvement of exchange instruments, the main directions in the dynamics of these prices and to describe the fundamental changes in their movement. At the same time it must be stipulated that, from our point of view, such indices are not methodologically an absolutely irreproachable criterion, as a consequence of which some conclusions, which will be made during the analysis on the basis of index estimates, should not always be taken to be completely infallible and final.

Fourth, average statistical prices, which were calculated according to the data of the all-union export-import associations and other economic organizations of the USSR, which carry out foreign trade operations, were used as methodologically quite representative information on contract prices, on the basis of which the indices were calculated. These indices were calculated for individual groups of goods and the most important representative goods. The use for the purposes of this analysis of average statistical prices, which are distinguished by some "deviations" from the point of view of costing purity from the prices of strictly specific goods, in our opinion, is statistically fully justified primarily because they have as compared with unit specific prices the indisputable advantage of generalized value indicators. The point is that the series of prices of individual goods with a sharply defined individual characterization are only examples, special cases in pricing, although they are taken in their dynamic development. They can show (and indeed do show) the most conflicting, at times even the direct opposite trends in the movement of the prices of various specific representatives of a homogeneous group of goods. Therefore, in order to discover in the practically boundless sea of these prices what is natural and typical, it is necessary to bring them together in the unified course of a generalized indicator. Average statistical prices, in our opinion, are precisely such an indicator. Calculated on the basis of the individual prices on the

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average during the year for consolidated types of goods or groups of goods, the dynamic series of the average statistical price indices make it possible to obtain a generalized description of the process of pricing, which has been crystallized in specific trends and reveals the most general, fundamental parameters and directions of its development, especially over a long period.

Fifth, on the basis of the fact that the Soviet Union has the greatest proportion in the reciprocal commodity turnover of the CEMA countries and since the indices of its export prices are calculated with respect not to the individual countries, but to all the countries of the community taken as a whole, in our opinion, it is methodologically quite permissible to use as the basic information in the calculations the indices of the most important export goods in USSR trade with the CEMA countries. Incidentally, a routine computation using the example of the prices of some sample goods showed the negligibility of the degree of discrepancy between the contract prices, which formed in USSR trade with the CEMA countries, and the regionwide level of contract prices.¹ On the whole, when characterizing on a sufficiently broad macrolevel the dynamics of contract prices in the trade between the CEMA countries, the indices of the average statistical contract prices of the Soviet Union make it possible to present in relief, close up the main laws of the process of foreign trade pricing, which is very important for the national economic estimates of the development of the economy of the socialist countries.

Sixth, for the periodization of the analytical data, which was used in the process of the study, the changes caused by the movement of the contract prices served as the decisive methodological factor. This primarily explains the selection as the reference points for the analysis the price indices of 1966 and 1971, the levels of which characterize the results of the adjustment immediately during the first year right after the mass revision of the entire system of contract prices. The series of indices from 1970 to 1975 is cited for the purpose of showing a comparative picture of the degree of the annual change in all three types of the prices being studied. One of the methodological peculiarities of this analysis of the dynamics of contract, world and wholesale prices is the use as the basis of the calculation of the indices of the price level of 1970, and not 1960, which is chronologically the starting point of this analytical series. The selection of this base was dictated by the consideration that both in world statistics and in CEMA statistics at present 1970 is the base point of the overwhelming majority of calculations, as well as by the quite justified aspiration to bring the analytical data closer to the current scale of their

1. For example, for such goods as staple cotton or wheat, which are objects primarily of the exports of the Soviet Union, the deviations, as a rule, do not exceed 1-2 percent; for goods with a broader group of exporters among the CEMA countries (meat, butter, wool), the deviations reach 5-10 percent.

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measurement. It should also be noted, apparently, that the 16-year period being analyzed (1960-1975), in our opinion, is statistically sufficiently representative.

And, finally, since the dynamics of the contract, world and wholesale prices of various groups of goods as components of the total structure of the foreign trade turnover of the CEMA countries have their own peculiarities, three main subdivisions of goods were singled out in the process of the study, which made it possible to analyze separately and then to compare the movement of prices for such major groups of goods as fuel and raw material goods, metals, agricultural goods and the products of their processing, machinery and equipment.

The Nature of the Dynamics of the Price Indices for Fuel and Raw Material Goods and Metals. It is best to begin the analysis of the movement of the contract, world and wholesale price indices for fuel and raw material goods and metals, in our opinion, with the examination of the data of Table 1, which characterizes the dynamics of these indicators, which were calculated in conformity with the adopted research methodology.

A survey of the cited data makes it possible to note the great dynamicity of the change of the price indices for this group of goods, which can be traced distinctly above all in the substantial increase of all three series of indices by 1975 as compared with 1960. For example, the world price indices for petroleum increased 6-fold, zinc and cellulose--nearly 4-fold; the contract price indices for zinc--3-fold, coal--2-fold, petroleum--1.6-fold; the wholesale price indices for petroleum, iron and manganese ore--2-fold, pig iron, zinc, cellulose--1.5- to 2-fold. Here the world and contract price indices have been most dynamic in recent years. If we limit more precisely the time framework of the especially intensive movement of the indices of the individual types of prices, the end of 1972 to 1974 should be mentioned for the world price indices, above all 1975 for the contract price indices and 1974 for some goods, as well as the boundaries of the changeover to a new (lower) price level in 1966 and 1971.²

The data of Table 1 also show that the movement of the contract, world and wholesale price indices, which was caused by various factors, was manifested specifically not only in the directions of the changes of the indices between the three main types of prices being analyzed, which in principle do not coincide, but also in the quite substantial discrepancies within each of them separately for various goods. For example, for the majority of

2. When analyzing the noted trends in the movement of the price indices it is necessary to emphasize a very significant, in our opinion, feature of these indicators, which is connected with the uniformity of the qualitative evaluation of the majority of the goods of this group and with the stability of the assortment pattern of the exports, owing to which the dynamics of the cited data characterize quite reliably the real processes of pricing of the goods of the fuel and raw material group.

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goods the contract price indices for the period from 1960 to 1970 decreased, while the world and especially the wholesale price indices of many types of fuel and raw materials had during this period the clearly predominant tendency to increase. After 1970 against the background of the rapid increase of the world price indices of the goods of this group--and following them the contract price indices as well--the wholesale prices and their indices maintained almost complete stability.

Table 1

Contract, World and Wholesale Price Indices of the USSR for Some Types of Fuel, Raw Materials and Metals (1970 = 100)

(1) Товар	(2) Индекс цен	1960 г.	1960 г.	1971 г.	1972 г.	1973 г.	1974 г.	1975 г.
(3) Уголь	(4) Контрактные	115	98	101	120	107	108	230
	(5) Мировые	82	87	110	115	120	152	193
	(6) Оптовые	70	65	93	96	95	94	95
(7) Нефть	(4) Контрактные	133	97	101	102	104	117	216
	(5) Мировые	103	100	122	133	162	643	640
	(6) Оптовые	36	42	101	101	101	100	101
(8) Железная руда	(4) Контрактные	121	101	101	102	103	105	133
	(5) Мировые	123	103	112	107	91	118	166
	(6) Оптовые	37	41	93	93	93	93	100
(9) Марганцевая руда	(4) Контрактные	220	97	100	90	93	103	99
	(5) Мировые	152	152	122	117	150	220	264
	(6) Оптовые	30	34	98	95	93	96	97
(10) Чугун	(4) Контрактные	144	102	93	100	100	99	152
	(5) Мировые	101	89	110	112	115	155	181
	(6) Оптовые	56	56	100	100	100	99	101
(11) Цинк	(4) Контрактные	93	98	111	121	132	127	270
	(5) Мировые	72	83	103	123	232	223	272
	(6) Оптовые	61	61	100	100	100	100	100
(12) Свинец	(4) Контрактные	134	104	119	135	141	173	190
	(5) Мировые	58	75	83	97	140	203	140
	(6) Оптовые	111	107	100	100	100	100	100
(13) Алюминий	(4) Контрактные	110	100	102	100	103	110	120
	(5) Мировые	93	83	98	84	84	103	103
	(6) Оптовые	74	74	100	100	101	101	101
(14) Целлюлоза	(4) Контрактные	111	111	107	114	119	123	153
	(5) Мировые	63	65	113	106	113	161	244
	(6) Оптовые	47	60	98	101	97	71	72

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Key:

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|----------------|------------------|
| 1. Good | 8. Iron ore |
| 2. Price index | 9. Manganese ore |
| 3. Coal | 10. Pig iron |
| 4. Contract | 11. Zinc |
| 5. World | 12. Lead |
| 6. Wholesale | 13. Aluminum |
| 7. Petroleum | 14. Cellulose |

Source: "Vnesnyaya torgovlya SSSR. Statisticheskiy obzor" /USSR Foreign Trade. A Statistical Survey/, Moscow, "Statistika", the corresponding years; "Monthly Bulletin of Statistics," New York, the United Nations, the corresponding years.

As to the indices of the various types of prices, here an even greater inconsistency of the "intratype" movement is observed. As an illustration of this process it is possible to cite instances of the direct opposite movement of the indices of the individual types of prices. For example, during 1960-1970 the world price indices of iron and manganese ore decreased, while those of coal, zinc, lead, aluminum and cellulose increased. The analysis of the movement, although negligible, of the wholesale price indices during 1970-1975 shows that for petroleum, pig iron and aluminum they increased; for coal, manganese ore and cellulose they decreased; for iron ore, zinc and lead they remained unchanged. The degree of change of the indices was also different: the most significant degree was for world prices (for petroleum, zinc and cellulose they increased during 1960-1975 by 181-537 points); it was weaker for contract prices (the increase of the price indices for petroleum, coal and zinc was 83-177 points) and the weakest for wholesale prices, where the increase of the price indices for manganese ore, petroleum and iron ore was on the level of 63-67 points.

However, of fundamentally great importance in this case is the fact that all these changes, which have different directions and a different intensity, of the contract, world and wholesale price indices, which reflect the changes in their absolute levels, had such a contradictory influence on the nature of the correlations forming between them, the study of which is of particular interest for this examination. Therefore, in order to analyze in more detail and specifically, as applied to the individual types of representative goods in question, the dynamics of the contract, world and wholesale price indices and their correlations, it is necessary to make additional supplementary calculations, the results of which are presented in Table 2.

By analyzing on the basis of the data of Table 2 the nature of the interrelations of contract prices with world prices, it is possible to see that the greatest convergence between them was typical of 1966 and 1971-1972, that is, the first years immediately after the changeover to the new base, which is calculated in both instances as the average annual level of world prices for the preceding five-year period. Indeed, the smallest deviations according to the value in the price indices fall to these periods--the average amount of

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the deviations is 21, 14 and 17 points,³ which, for example, is nearly one-sixth to one-ninth as much as in 1974 and one-fourth to one-sixth as much as in 1975. For some goods the closeness of the convergence reaches at times critically negligible limits: in 1966 for petroleum--3 points, iron ore--5 points; in 1971 for aluminum--4 points, cellulose--6 points; in 1972 for zinc--2 points, coal and iron ore--5 points. Incidentally, precisely this factor--the separation of the indices of current world prices from the reference base used in forming contract prices--in our opinion, basically explains the relatively high degree of discrepancy between the contract and world prices in 1960, when the contract price indices, which were calculated on the basis of 1957 world prices, are compared with the 1960 world price indices.

Table 2

Comparison of the Degree of Change of the Contract Price Indices
With Respect to the Changes of the World and Wholesale Price Indices During 1960-1975

(1) Разница в пунктах между контрактными и мировыми ценами (А), контрактными и оптовыми ценами (Б)		1960 г.	1966 г.	1971 г.	1972 г.	1973 г.	1974 г.	1975 г.
(2) Уголь	А	33	10	8	5	13	44	37
	Б	45	33	3	24	12	14	131
(3) Нефть	А	30	3	21	36	78	536	424
	Б	97	55	0	1	3	17	115
(4) Железная руда	А	2	5	11	5	12	13	28
	Б	81	60	2	4	4	6	35
(5) Марганцевая руда	А	63	51	22	27	51	117	165
	Б	190	63	2	5	3	7	2
(6) Чугун	А	43	13	11	12	15	56	34
	Б	89	47	1	0	0	0	51
(7) Цинк	А	21	15	8	2	150	293	2
	Б	32	37	11	21	32	23	170
(8) Соли	А	76	29	36	38	1	30	41
	Б	23	3	19	35	41	73	90
(9) Алюминий	А	17	12	4	25	25	1	11
	Б	36	26	2	9	8	9	19
(10) Целлюлоза	А	49	49	6	8	6	38	86
	Б	64	54	9	13	22	52	86
(11) В среднем	А	37	21	14	17	38	125	92
	Б	73	42	5	12	14	23	78

/Key on following page/

3. The extent of the difference is calculated as the arithmetic mean difference from the sum of the deviations for all nine goods. For example, for 1966 it would be, according to the data of Table 2: $(9 + 3 + 5 + 55 + 13 + 15 + 29 + 12 + 49) : 9 = 14.1$

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Key:

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| 1. Difference in points between contract and world prices (A), contract and wholesale prices (B) | 5. Manganese ore |
| 2. Coal | 6. Pig iron |
| 3. Petroleum | 7. Zinc |
| 4. Iron ore | 8. Lead |
| | 9. Aluminum |
| | 10. Cellulose |
| | 11. Average |

Calculated from the data of Table 1.

A typical trend of the development of the interrelations of the contract and world price indices, which is also distinctly visible from the average levels of the deviations between them, is the gradual increase of the deviations starting in 1972 (1974 was the culmination point). The results of the calculations show that this concerned to the greatest extent such goods as petroleum, zinc and manganese ore and was caused by the fact that while the world prices for these goods, having experienced a number of impulsive jumps, exceeded their own level many times, the contract prices for petroleum and zinc increased by 1974 (1970 = 100) by only 17-29 percent and for manganese ore in general were virtually not adjusted. For other goods the intensity of the increase of contract prices was also comparatively lower than that of world prices.

This nature of the trends of the movement of the contract and world price indices and the interrelations which formed between them was naturally governed by the method previously in effect of the foreign trade pricing of the CEMA countries, when the contract prices of raw materials, fuel and metals were adjusted on the average once every five years regardless of the actual changes which had occurred in the prices of international trade. The recommendation of the CEMA Executive Committee (1975) on the use of a more flexible method of adjustment unquestionably will also promote the more consistent implementation of the principle of forming contract prices on the basis of world prices, one of the results of which should be, in particular, the convergence between their indices. As the first phase of the adjustment of contract prices at the beginning of 1975 showed, the correlation between them has been appreciably balanced, although even now the gap is quite appreciable. Therefore, if we give an assessment for the future, on the basis of the existing situation, it should be noted that, in spite of the steps that have been taken, the problem of the further convergence of the contract and world price indices, the successful solution of which will depend decisively on the extent of the adjustment at subsequent stages and the nature of the current changes in the levels of world prices, as before remains pressing.

A much dissimilar picture, as the data of Table 2 show, is found in the correlations between the contract and wholesale price indices, if we compare it with the nature of the above-examined interrelations of the contract and world price indices. Thus, in 1960 the contract price indices were twice as

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close to the world price indices than the wholesale price indices. 1966, on the one hand, can also serve as an example of the establishment of favorable correlations between the contract and world price indices and, on the other hand, on the contrary, is characterized by the continuation of the very significant differences of the contract price indices with the wholesale price indices, while in 1974 as a result of the sharp increase of the world price indices the gap between them and the contract price indices exceeded more than fivefold the degree of differences between the contract and wholesale price indices. At the same time periods of the relative convergence in the degree of the deviations of the contract price indices from both the wholesale and the world price indices were also observed (for example, in 1972 and 1975), which, however, does not attest to such a coincidence between the absolute levels of these prices, but only emphasizes the parallel direction of their movement during these years.

If we analyze the nature of the interrelations between the contract and wholesale price indices for individual types of goods, first of all it is necessary to note that 1970 became a kind of turning point, prior to which (starting in 1960) the wholesale price indices of the overwhelming majority of goods were considerably lower than the contract price indices. After 1970 as a result of the stability of the levels of both types of prices a small difference was maintained between their indices right up to 1975, when the changeover of contract prices to the new base began (for some metals only up to 1974 and even 1973, since a partial adjustment was made for them even earlier). As is shown by the calculation data cited in Tables 1 and 2, the increase of the contract prices in 1975 led to a significant increase in the deviations between the contract and wholesale price indices for all the goods in question, except manganese ore. However, in analyzing this process, it is necessary to direct attention to the inadequacy and inaccuracy of the index evaluation in this case. The point is that at that time there were between the absolute levels of the contract and wholesale prices, which were arbitrarily taken when calculating the indices on the basis of 1970 as 100, substantial differences which were unintentionally "hidden" in the dynamics of the indices after 1970 until both the wholesale and contract prices remained unchanged (in practice until 1975). Therefore, the absolute increase of the contract prices with the stability of the wholesale prices in 1975 externally was manifested very distinctly and unambiguously as the worsening of the proportions between their indices (and, it can be concluded, also between their absolute values), although in reality, on the contrary, precisely a convergence between these prices in absolute terms occurred, that is, we were faced with one of those cases, the likelihood of which was already mentioned in the methodological remarks on the analysis (it is impossible to overestimate the analytical potentials of the index method of evaluation).⁴

4. However, this statistical "special case," in our opinion, by no means calls the index method into question, but merely emphasizes the need for the strict observance of all the conditions of the analysis.

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If we compare now all three lines in the dynamics of the indices of the series of prices being analyzed--contract, world and wholesale prices--in our opinion it is possible to note the following characteristic trends in the development of their interrelations. First, the correlations between the contract and world price indices for petroleum, manganese ore and zinc and between the contract and wholesale prices for coal, zinc, lead and cellulose changed the most dynamically, which attests to the independence of these directions. Second, the data cited in Tables 1 and 2 show that in the dynamics of the contract price indices before 1970 considerably sharper differences are noted with respect to the wholesale price indices than to the world price indices for all the goods, with the exception of lead, while after 1970 the picture changes quite sharply. Now closer proportions between the contract and world price indices are being established for some goods (lead, cellulose, in part coal, which was joined in 1975 by iron ore and pig iron), while for other goods (petroleum and manganese ore) the discrepancies are increasing sharply. Third, the previous uniformity does not exist in the interrelations between the contract and wholesale price indices, which was disrupted first (in 1973-1974) for lead, zinc and cellulose, and then (in 1975) covers eight of the nine goods being analyzed.

As a result of all these contradictory changes, however, the following stages in the movement of the contract, world and wholesale price indices stand out quite clearly: initially (1960-1970) a closer interrelation between the contract and world price indices; then (1970-1974) an appreciable convergence of the contract and wholesale price indices, at the same time as which a decrease, but a weaker one, in their discrepancies with the world price indices occurred (1970-1973); this tranquil stage was replaced by the explosive peak of 1974, which abruptly disrupted the links between the contract and world price indices; and in the last stage (1975) the tendency toward equilibrium (true, with an amplitude of 78-92 points) in the deviations of the prices. Thus, it is possible to note on the whole a very consistent connection of the movement of the contract price indices with the world price indices for the goods of the fuel and raw material group and metals.

Dynamics of the Price Indices for Agricultural Goods and the Products of Their Processing. The problem of supplying the countries of the world socialist community with foodstuffs and other types of agricultural products is one of the basic problems which will be solved in the framework of the long-term goal programs of cooperation on the basis of the pooling and more efficient use of the resources of the countries with the active participation of a wide range of economic instruments which operate in the mechanism of mutual cooperation, including prices. In a special section of the Comprehensive Program, which is devoted to the problems of further improving the cooperation among the CEMA countries in the area of agriculture and the food industry, measures aimed at the fullest possible utilization in this case of the existing system of contract prices are also called for. In particular, it is emphasized that prices can purposefully influence:

first, the process of the international socialist division of labor among the CEMA countries, creating the conditions for the most efficient use by each

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country of its natural and economic potentials for the purpose of developing agricultural production and, consequently, expanding the reciprocal exports of the goods of this sector;

second, the formation of a rational structure of the imports by the CEMA countries of agricultural and food goods by the combination of measures which stimulate an interest in the development of intrasystem purchases with the expansion in necessary instances of the imports from third countries.

The close involvement of prices in the solution of these most important problems, in our opinion, makes it especially urgent to study their dynamics in order to examine more thoroughly the role of the price factor in the formation of the export-import flows with a breakdown by specific groups of goods.

It seems to us that it is most expedient to use as the necessary analytical material for this purpose the dynamic series of the contract, world and wholesale price indices, which have been calculated with respect to some basic types of agricultural goods and the products of their processing (Table 3).

As can be seen from the data of Table 3, characteristic trends are inherent in the dynamics of the contract, world and wholesale price indices for this group of goods. First of all, in our opinion, the great dynamicity of the change in the indices of all three series of prices during almost the entire period being analyzed stands out very clearly. And the first place in this respect obviously belongs to the world price indices of individual goods, especially wheat, vegetable oil, cotton and flax. After them come the contract price indices, which changed most sharply for vegetable oil, meat and staple flax. The wholesale price indices underwent a less significant change during this interval of time as a whole, although for some goods, for example, wheat, staple cotton and wool, by 1975 they had increased as compared with 1960 by 39-61 points.

However, when analyzing this period as a whole, it should not be overlooked that it is in fact divided into two independent stages, which are characterized by certain specific peculiarities of the dynamics of the individual types of prices. Thus, in 1960-1970 (the first stage), in contrast to the results during the 16-year period, the wholesale price indices changed most intensively, after them came the world and contract price indices. The prevailing direction of the change in the indices of all three series of prices at this stage was their gradual increase, with the exception: the wholesale prices for tea, vegetable oil and staple flax, the world prices for wool and staple flax, the contract prices for wool, vegetable oil and staple cotton. At the second stage the overall tendency for all the indices to increase, which now is even more intensive for world prices under the influence of the energy crisis which staggered the capitalist world, dominates. The dynamics of the contract price indices are developing considerably more tranquilly, although they are also increasing following their base. The dynamics of the wholesale price indices are declining appreciably, especially in comparison with 1960-1970.

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Table 3

Contract, World and Wholesale Price Indices of the USSR for Some Types of Agricultural Goods and the Products of Their Processing (1970 = 100)

(1) Товар	(2) Индекс цен	1960 г.	1966 г.	1971 г.	1972 г.	1973 г.	1974 г.	1975 г.
(3) Пшеница	(4) Контрактные	98	87	90	94	95	108	132
	(5) Мировые	97	110	103	115	232	322	286
	(6) Оптовые	58	67	101	120	121	120	119
(7) Хлопок-волокно	(4) Контрактные	103	105	103	103	101	103	132
	(5) Мировые	78	70	99	104	140	245	209
	(6) Оптовые	67	83	108	109	112	114	116
(8) Лен-волокно	(4) Контрактные	74	95	99	98	100	97	137
	(5) Мировые	118	136	100	128	186	224	190
	(6) Оптовые	105	105	98	99	98	102	104
(9) Шерсть	(4) Контрактные	133	132	102	127	149	154	127
	(5) Мировые	133	154	85	161	200	188	179
	(6) Оптовые	84	88	104	101	117	120	123
(10) Чай	(4) Контрактные	68	78	75	72	62	62	64
	(5) Мировые	74	90	104	94	99	142	169
	(6) Оптовые	117	94	99	99	98	94	102
(11) Масло ко-ровье	(4) Контрактные	94	100	96	125	128	109	120
	(5) Мировые	66	79	111	117	151	157	179
	(6) Оптовые	81	99	119	100	99	100	100
(12) Масло растительное	(4) Контрактные	122	101	100	110	99	119	185
	(5) Мировые	72	79	115	99	146	296	224
	(6) Оптовые	108	98	99	100	100	102	101
(13) Мясо	(4) Контрактные	84	101	96	124	130	134	142
	(5) Мировые	75	85	104	147	164	156	173
	(6) Оптовые	65	111	101	99	101	102	101

Key:

- | | |
|------------------|-------------------|
| 1. Good | 8. Staple flax |
| 2. Price index | 9. Wool |
| 3. Wheat | 10. Tea |
| 4. Contract | 11. Butter |
| 5. World | 12. Vegetable oil |
| 6. Wholesale | 13. Meat |
| 7. Staple cotton | |

Sources: "Vneshnyaya trgovlya SSSR" [USSR Foreign Trade] for the corresponding years; "Monthly Bulletin of Statistics," "Monthly Bulletin of Agricultural Economics and Statistics" for the corresponding years.

The data of Table 3 also give a very convincing picture of the fact that the greatest changes in the dynamics of the contract, world and wholesale price

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indices occurred in 1975, when along with the continued intensive change in the world price indices substantial shifts were noted in the levels of not only the contract, but even the wholesale price indices, which promoted the establishment of different proportions between them. In this connection in much the same way as the attempt to analyze the dynamics of the contract, world and wholesale price indices (and the interrelations formed between them) for fuel and raw material goods and metals let us examine Table 4, which contains the calculation data of the changes in the price indices for agricultural goods and the products of their processing.

Table 4

Comparison of the Degree of Change in the Contract Price Indices With Respect to the Changes in the World and Wholesale Price Indices for 1960-1975

(1) Разница в пунктах между контрактными и мировыми ценами (А), контрактными и оптовыми ценами (Б)		1960 г.	1966 г.	1971 г.	1972 г.	1973 г.	1974 г.	1975 г.
(2) Пшеница	А	1	23	2	21	137	214	154
	Б	40	20	2	26	26	12	13
(3) Хлопок-волокно	А	27	26	4	1	39	140	77
	Б	38	22	5	6	11	9	16
(4) Лен-волокно	А	44	41	1	30	81	127	53
	Б	31	10	1	1	2	5	33
(5) Шерсть	А	2	22	17	34	141	34	52
	Б	51	41	2	24	32	31	4
(6) Чай	А	6	12	29	21	37	80	103
	Б	49	16	24	27	36	32	38
(7) Масло коровье	А	28	21	15	8	23	48	59
	Б	13	1	23	25	29	9	20
(8) Масло растительное	А	50	25	15	11	47	177	39
	Б	14	6	1	10	1	17	81
(9) Мясо	А	9	16	8	23	34	22	31
	Б	19	10	5	25	29	32	41
(10) Итого	А	167	186	93	150	544	812	570
	Б	255	129	63	144	166	150	246
(11) В среднем	А	21	23	12	19	68	105	71
	Б	32	16	8	18	21	19	31

Key:

- | | |
|---|------------------|
| 1. Difference in points between contract and world prices (A) | 5. Wool |
| contract and wholesale prices (Б) | 6. Tea |
| 2. Wheat | 7. Butter |
| 3. Staple cotton | 8. Vegetable oil |
| 4. Staple flax | 9. Meat |
| | 10. Total |
| | 11. Average |

Calculated from the data of Table 3.

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The analytical data cited in Table 4 help in many ways to refine and extend the conclusions made on the basis of the analysis of Table 3. Thus, Table 4 first of all contains a graphic quantitative description of the degree of the deviations of the contract price indices from the world and wholesale price indices, confirming the already stated general fundamental assessment and thereby increasing considerably the opportunities for a more thorough and detailed analysis of the nature of the interrelations forming between them.

For example, the comparison of the movement of the contract and world price indices very clearly reveals the very irregular nature of their dynamics, when along with periods of relative equilibrium a quite substantial exceeding of the permissible limits of the deviation from the necessary proportionality in the correlations between them is observed at some stages.

In particular, from the average indicators cited in Table 4, which were calculated for all eight of the goods being analyzed, it follows that 1960 is characterized by a comparatively small degree of discrepancy between these indices, one of the main reasons for which, in our opinion, was the insignificance of the differences in the levels of the 1957 world prices, which served as the basis for the contract prices in effect in 1960, and the level of the current world prices of that year. The situation in 1966 is already characterized by an increase of the discrepancy between the contract and world price indices. In our opinion, this was caused by the increased differences between the contract prices which were established on the basis of relatively lower world prices that were calculated for the preceding five-year period than the current world prices of 1966 (the gap reached 10 points), which also affected the indices.

Then, after the next adjustment of contract prices in 1971, an appreciable convergence of the contract and world price indices is again observed, since the average annual level of the world prices during 1965-1969, which differed from the current world prices of 1971 by only 2-3 points, was used in this case as the basis for them. But soon, in practice starting in the second half of 1973, a period of the extremely sharp increase of the discrepancies in the trends of the movement of the contract and world price indices began owing to the unusually accelerated rate, even for the capitalist economy, of the increase in world prices in general. Here it is typical that some goods were affected by this process very unequally. As the calculations show, whereas by 1974 as compared with 1971 the discrepancies between the contract and world price indices had increased for wheat by 210 points, for vegetable oil by 162 points and for staple cotton by 136 points, they reached only 17 points for wool and 14 points for meat. All in all for all crop goods, if we make a comparison with 1971, an almost ninefold increase of the deviations occurred. As is evident from the cited data, the situation improved in part in 1975; however, the necessary proportionality between the world and contract price indices has still not been completely restored.

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If we now analyze from the data of Table 4 the nature of the interrelations forming between the movement of the contract price indices for agricultural goods and the changes in the dynamics of their wholesale price indices, it will also be necessary to note many significant discrepancies between them, although on the whole it is necessary to point out the considerably smaller degree of fluctuations than was observed when analyzing the contract and world price indices. Both the less significant differentiation of the total amounts of the deviation by years and the smaller differences between the contract and wholesale price indices for specific goods attest to this. Only 1960 is an exception, when the amount of the deviations of the contract price indices from the wholesale price indices was 1.5-fold greater than the total difference between the contract and world price indices, which confirms the increase of the discrepancies in the movement of the contract and wholesale price indices during this period. During the rest of the time the comparison of the contract and world price indices shows alternately an increasing and declining tendency toward convergence in some years. It is possible to consider 1971 and 1966 as the most favorable years in this respect. In 1971 this was connected in part with the selection of 1970 as the basis for the calculation of the indices, and in 1966 with the movement in the opposite direction of the contract and wholesale price indices (in some cases an increase, in others a decrease), which promoted the intensification of the interrelation between them for some types of goods.

A closer tie for the contract and wholesale price indices is also detected when comparing the proportions between the higher and lower levels of the deviations of the contract price indices from the wholesale price indices, which were 4 : 1, or correspondingly 32 points to 8 points (1960 to 1971), while between the contract and world price indices they were 9 : 1, which is equal to 105 points to 12 points (1974 to 1971). Among the indices for some goods, of course, sharper discrepancies are encountered, such as for wool, tea and wheat (higher than the average level), vegetable oil and butter (lower than the average level), but these are special cases. The appreciable worsening of the proportions between the contract and wholesale prices indices, which is typical of 1975, in principle differs from the 1960 situation, first, for the fact that they nevertheless remained comparatively more favorable than the comparison of the contract price indices with the world price indices, and, second, for the fact that the outwardly worse correlations between the contract and wholesale price indices, as in the analysis of the price indices for fuel and raw material goods, do not mean a real worsening in the correlations between their absolute levels, which, on the contrary, came closer together as a result of the increase of contract prices.

The noted nature of the economic interrelations between the movement of the contract, world and wholesale price indices makes it possible to express a number of views concerning the influence of the price factor on the development of economic cooperation among the CEMA countries.

Thus, since the correlation of the contract prices with the world prices characterizes primarily the foreign economic aspect of the interest of the

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CEMA countries in mutual cooperation as compared with worldwide conditions, depending on the main direction of the interrelations forming between the prices the possibility of both a stimulating and an inhibiting influence on their part on the development and consolidation of the integration forms of cooperation of the CEMA countries in the area of agricultural production and exchange constantly exists.

It is symptomatic that this, it would seem, very general view is quite specifically confirmed in the practice of mutual exchange. For example, the tendency during some periods for the contract price indices to converge with the wholesale price indices for vegetable oil, staple flax and staple cotton is usually matched either with an increasing volume of mutual exports or with a stably high proportion of mutual exchange in the trade in these goods. On the other hand, the occasional convergence of the contract and world price indices for some goods, for example, meat and tea, is often accompanied by the pronounced spasmodic dynamics of the chain of indices of mutual exports and imports, which in some years do not show an increase at all. When the change in the contract and world price indices run in different directions, it seems very difficult, of course, to detect the influence of the price factor. Therefore, we will take the liberty to confine ourselves to the conclusions with respect to the role of foreign trade prices primarily in those instances when this influence is quite obvious.

In addition to the foreign economic aspect of the comparison of contract prices with world and wholesale prices the comparison of contract prices with the level of the retail prices at which agricultural goods are sold to the immediate consumers on the domestic market is of unquestionable interest for the purposes of this analysis, since in this case there is an opportunity to compare the levels of sales within the country and on foreign markets and on this basis to analyze the advantages or identify the causes for the lack of material interest in the export and import of some types of agricultural products. However, at this time we do not have this type of data for the individual CEMA countries, with the exception of some statements in the periodic press.⁵ Therefore, relying on the data for the Soviet Union, where indeed, as a rule, the retail prices for agricultural goods exceed the contract prices, we can conclude that the sale of produce on the domestic market is stimulated to a greater extent by this correlation. Consequently, with the existence of such a situation in the other CEMA countries up to now the solution of the problem of the self-sufficiency of the countries in agricultural products or the consumption of less expensive imported goods was obviously encouraged to a greater extent by the price factor. However, if we proceed from the fact that during the coming five-year period the level of contract prices, following world prices as its basis, will

5. See, for example, the article of Yu. Kormnov and B. Frumkin in the journal *PLANOVOYE KHOZYAYSTVO* (No 1, 1975), in which the authors conclude that the domestic prices for some agricultural goods in the CEMA countries "often are higher than the foreign trade prices" (p 89).

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increase much more significantly than retail prices, it is possible to anticipate a corresponding increase of interest also in the expansion of the exports of agricultural products to the international market of the CEMA countries.

Thus, the comparative analysis of the movement of the contract, world and wholesale price indices for agricultural goods and the products of their processing showed that as a result of the exceptionally sharp and profound shifts in the system of world prices, on the one hand, and with the negligibility of the changes in wholesale prices, on the other, even in spite of the adjustment of the contract prices at the beginning of 1975 for the purpose of maintaining their equilibrium with their base, a relatively smaller degree of deviation of the contract price indices from the wholesale price indices constitutes the main distinctive feature of the pricing of recent years for this group of goods. This, however, does not mean the basic loss by world prices of the role of a base criterion for contract prices (especially in light of the further convergence between them as a result of the coming new stages of adjustment).

The Dynamics of the Price Indices for Machinery and Equipment. As in the analysis of the dynamics of the price indices of fuel and raw material goods, metals and agricultural products, first of all let us examine the analytical indicators for individual types of machinery and equipment, which are grouped in Table 5. On the basis of the data of Table 5 it is possible at first to draw the most general conclusions. First, it seems to us that it is necessary to point out the clearly defined unidirectionality of the movement of the indices of all three series of prices upward. This trend, in particular, is clearly seen in the fact that until 1970 the price indices of nearly all the goods, with minor exception, were lower than the 1970 level, while later they began, as a rule, to exceed it.

Second, the movement of the price indices is characterized the irregular intensity of the change first of all in the world prices, especially during the years of the energy crisis which gripped the capitalist economy. As to contract and wholesale prices, the most noticeable differences in the levels of their indices are observed primarily on the boundary of the changeover to the new base at the moment of the mass revision of prices. For example, for contract prices this is clearly visible from the indices of 1966 and 1975.

The irregularity of the dynamics of contract prices is explained in part by some instability of the export assortment, the great dynamicity of the change in quality and the difficulties in ensuring the complete qualitative comparability of goods in some instances, by disruptions in the continuity of the base world prices being used in connection with the lack of sufficiently representative information. The consequences of the more frequent revisions of the contract prices for machinery and equipment (every 2-3 years), which were introduced in the practice of foreign trade pricing of recent years, also have an effect.

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Table 5

Changes in the Contract, World and Wholesale Price Indices of the USSR
for Some Types of Machinery and Equipment During 1960-1975 (1970 = 100)

(1) Товар	(2) Индекс цен	1960 г.	1966 г.	1971 г.	1972 г.	1973 г.	1974 г.	1975 г.
(3) Станки металлорежущие	(4) Контрактные	93	131	93	100	104	100	117
	(5) Мировые	93	78	100	113	121	133	143
	(6) Оптовые	93	53	101	100	105	101	100
(7) Автомобили грузовые	(4) Контрактные	51	85	101	107	105	103	133
	(5) Мировые	83	92	108	112	114	123	136
	(6) Оптовые	46	77	93	104	105	105	111
(8) Автомобили легковые	(4) Контрактные	110	100	103	105	107	110	115
	(5) Мировые	91	97	106	111	118	123	136
	(6) Оптовые	66	83	114	115	113	109	108
(9) Экскаваторы	(4) Контрактные	96	122	100	117	110	126	120
	(5) Мировые	77	83	105	110	117	126	142
	(6) Оптовые	91	99	97	110	106	113	114
(10) Бульдозеры	(4) Контрактные	72	49	105	100	98	92	103
	(5) Мировые	77	83	106	110	117	126	142
	(6) Оптовые	89	66	69	90	90	90	90
(11) Тракторы	(4) Контрактные	79	81	96	104	112	104	108
	(5) Мировые	78	92	110	110	113	123	135
	(6) Оптовые	51	75	104	103	115	123	127
(12) Комбайны	(4) Контрактные	93	129	102	110	102	165	176
	(5) Мировые	77	90	113	120	123	137	151
	(6) Оптовые	81	77	102	107	100	175	175

Key:

- | | |
|------------------|-------------------|
| 1. Good | 7. Trucks |
| 2. Price index | 8. Passenger cars |
| 3. Machine tools | 9. Excavators |
| 4. Contract | 10. Bulldozers |
| 5. World | 11. Tractors |
| 6. Wholesale | 12. Combines |

Sources: "Vneshnyaya trgovlya SSSR" for the corresponding years; "Preise, Lohne und Wirtschaftsrechnungen. Statistisches Bundesamt," Wiesbaden-Stuttgart-Mainz for the corresponding years.

Third, in spite of the coincidence of the general tendency to increase, in the movement of the contract, world and wholesale price indices interrelations of a very different nature have been found, which are caused, in our opinion, mainly by the quite substantial differences in the dynamics of the indices of the specific representative goods being analyzed. For example, whereas the increase of the world price indices during 1970-1975 was distinguished by a great closeness of the deviations over the range of +35 to

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+51 points for some goods, during the corresponding period the contract price indices for similar items changed over the range of +8 to +76 points, while the wholesale prices changed over the range even from -10 to +75 points, which predetermined the nature of the interrelations being formed between all three types of prices.

However, in addition to these general conclusions, in order to gain an opportunity to analyze even more clearly and systematically the consequences of all the changes which have occurred, let us compile Table 6 according to the principle of Tables 2 and 4.

Table 6

Comparison of the Change of the Contract Price Indices With Respect to the Changes of the World and Wholesale Price Indices During 1960-1975

(1) Разница в пунктах между контрактными и мировыми ценами (А), контрактными и оптовыми ценами (Б)		1960 г.	1966 г.	1971 г.	1972 г.	1973 г.	1974 г.	1975 г.
(2) Станки металлорежущие	А	32	53	11	4	17	26	31
	Б	2	73	3	0	1	8	11
(3) Автомобили грузовые	А	31	7	7	5	9	22	0
	Б	5	8	8	3	0	3	23
(4) Автомобили легкие	А	19	3	3	6	11	15	21
	Б	44	17	11	10	6	1	7
(5) Экскаваторы	А	19	31	6	7	7	0	16
	Б	5	23	3	7	4	13	12
(6) Бульдозеры	А	5	39	1	10	19	31	34
	Б	17	17	36	10	8	2	18
(7) Тракторы	А	1	11	14	6	1	19	27
	Б	23	6	8	5	3	19	19
(8) Комбайны	А	16	39	11	10	20	28	25
	Б	12	52	0	3	2	10	1

Key:

- | | |
|--|-------------------|
| 1. Difference in points between contract and world prices (A), contract and wholesale prices (B) | 4. Passenger cars |
| 2. Machine tools | 5. Excavators |
| 3. Trucks | 6. Bulldozers |
| | 7. Tractors |
| | 8. Combines |

Calculated from the data of Table 5.

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Let us examine first, to what extent the method of indices and the nature of the interrelations which form between contract and world prices allow this.

As the data cited in Table 6 show, the smallest degree of discrepancy between the contract and world price indices falls, as a rule, to 1971-1972, which is first of all the direct result of the mass revision of contract prices, which was carried out directly on the eve (more precisely, at the beginning of 1971) and promotes their convergence with their base, as well as the negligibility of the changes of world prices during the base period under review as compared with the levels of these prices, which actually formed in 1971-1972. Later, however, the gap between the contract and world price indices, which was negligible during the first years, gradually increased, reaching its highest point by 1975, even in spite of the partial adjustment of the contract prices for the purpose of bringing them a little closer to the sharply increased world prices. At the same time as a result of the dissimilar extent of the adjustment and the selective coverage by it of the individual groups of goods and types of products a very variegated picture of the mutual discrepancies between these indices was created, as is evident from Table 6--from 0 points for trucks to 31-34 points for machine tools and bulldozers.

The data contained in the cited analytical table also show that the separation of the dynamics of the contract price indices from those of the world price indices, which in 1966 assumed considerable proportions, is connected, it seems to us, primarily with the use as a basis for them of the average annual levels of prices for 1960-1964, which differed quite significantly from the indices of the world prices in effect in 1966. In principle this explains, in our opinion, the noticeable gap between the contract and world price indices in 1960 as well.

On the basis of the data of Table 6 it is possible to draw several other conclusions: first, the comparatively more consistent coincidence in 1970-1975 of the dynamics of the contract and world price indices for such goods as trucks and excavators; second, the steady increase as compared with 1970 of the discrepancies in the price indices for machine tools, passenger cars, bulldozers and combines; third, the relative equilibrium in the deviations between the contract, world and wholesale price indices for tractors. In analyzing these trends, it is impossible, in our opinion, at the same time not to emphasize once again that the cardinal changes in the process of pricing, which occurred in world trade in 1973-1974 and, unquestionably will still be felt in subsequent years, certainly had a great stimulating influence on them.

Thus, the opinion stated by us when examining Table 5 concerning the effect of the overall upward trend in the dynamics of the contract and world price indices, as is evident, is completely confirmed by the data of Table 6. However, since some types of machinery and equipment were affected by this process to a different degree, which in all probability will also occur later,

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a tendency to differentiate the discrepancies between the contract and world price indices for various commodity line items is noted at the same time; this differentiation later might be intensified even more, although it is quite legitimate also to anticipate some equalization of the rates of change of the contract and world price indices.

The interrelations between the contract and wholesale price indices developed, as is evident from Table 6, in a different way than between the contract and world prices. For example, unlike the nearly four-year (from the second half of 1972 through 1975) tense situation, in which the interrelations between the contract and world price indices formed, the interaction of the contract and wholesale price indices up to the end of 1975 developed comparatively smoothly. Only at the start of 1975 were there noticed quite perceptible shifts toward a change of these interrelations primarily in the direction of an increase of the discrepancies, which was caused by the first stage of the increase of contract prices, while the wholesale prices remained virtually unchanged.

In preceding years (1960, 1966) the cases of noncoincidences between the contract and wholesale price indices were, as a rule, of a more pronounced nature, which was caused by the clearly inadequate consideration in the process of forming the contract prices of the factors of domestic production costs, since the procedure then in effect of coordinating the contract prices did not provide for their use as a mandatory economic criterion in pricing. This pertains, in particular, to the prices for passenger cars and tractors (1960), machine tools, combines and excavators (1966).

By 1975, as can be judged from the data of Table 6, along with the examples of the quite significant disparity between the contract and wholesale price indices for trucks, tractors and bulldozers a new tendency, which made itself clearly known, toward the formation of a stable proportionality in the dynamics of the contract and wholesale price indices for combines, machine tools and passenger cars draws attention.

The analysis made of the dynamics of the contract, world and wholesale price indices makes it possible to draw the general conclusion that, in spite of the consistent observance in the pricing process of the principle agreed upon by the CEMA countries of structuring contract prices on the basis of world prices, the nature of the interrelations forming between them is not distinguished by such consistent unambiguity. The contract price indices of some goods during different periods first truly drew closer to the world prices, then, on the contrary, gravitated more distinctly toward the wholesale price indices. Here it is characteristic that the coincidence of the dynamics of the contract and wholesale price indices is observed primarily for products which are produced by way of specialization and cooperation and precisely to which the majority of the prices we are analyzing for specific representative goods pertain. This, in our opinion, is a direct consequence of the progressive consolidation of the far-reaching production ties between the national economic complexes of the CEMA countries and the development of new forms of the economic cooperation among them, which in

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practice are gradually transforming the regional value categories into standards, which are equal to world prices, of the socially necessary evaluations of the results of the foreign economic activity of the countries of the socialist community.

The development of this new trend in the foreign trade pricing of the CEMA countries is not, however, an indication of a substantial weakening of the established interrelations between contract and world prices for machinery and equipment or of the lack of the prospect to maintain them in the future. In our opinion, precisely for such a group of goods as machinery and equipment the objective need for the systematic involvement of world prices as a basis for the purpose of taking into account by means of them the latest achievements of world science and technology, the rational value proportions between the basic groups of goods and other progressive trends in international trade remains urgent and important. At the same time, in our opinion, it would be a clear display of scientific nearsightedness to deny the progressiveness of the tendency toward the convergence of the contract and wholesale price indices as applied to products being produced under the conditions of the new, integrational forms of cooperation.

The analysis made with a breakdown by the most important groups of goods now makes it possible, having compared the results of the study, to obtain a general picture of the movement of the contract, world and wholesale price indices at the individual stages, which reveals the characteristic features, basic trends and nature of the interrelations which are formed in the process of foreign trade pricing.

For the purpose of greater clarity of this comparison let us cite a consolidated analytical table (Table 7), which contains the dynamic series of the mean arithmetic indices of the contract, world and wholesale prices for all three groups of goods, which makes it possible to represent the nature of the formation of the interrelations between them graphically.

The first thing which immediately draws attention upon examining the data of Table 7 and the chart is the very significant difference in the nature of the interrelations in the system of the indicators being analyzed both between the two stages (1960-1970 and 1970-1975) and during each of them between the individual groups of goods.

The chart literally "shoots down" the main, fundamental conclusion that at the turn of 1970 a cardinal change occurred in the interrelations between the contract, world and wholesale price indices. Whereas prior to 1970 the world price indices were indeed the indisputable center toward which the contract and wholesale price indices were gravitating, starting in 1971 and up to 1975 in 'usively the central position in the structure of the interrelations between the contract, world and wholesale price indices firmly shifts to the contract price indices.

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Table 7

Dynamics of the Average Contract, World and Wholesale Price Indices of the USSR During 1960-1975 (1970 = 100)

(1) Индекс цен	1960 г.	1966 г.	1971 г.	1972 г.	1973 г.	1974 г.	1975 г.
(2) Топливо, сырье, металлы							
(3) Контрактные	131	101	105	110	113	119	173
(4) Мировые	94	94	103	111	109	243	247
(5) Оптовые	58	60	90	90	90	96	96
(6) Сельскохозяйственные товары и продукты их переработки							
(3) Контрактные	97	100	90	107	108	111	135
(4) Мировые	87	101	103	121	176	216	201
(5) Оптовые	86	93	103	104	100	107	111
(7) Машины и оборудование							
(3) Контрактные	85	100	101	108	105	116	127
(4) Мировые	78	83	103	112	117	128	141
(5) Оптовые	74	76	97	100	103	117	110

Key:

- | | |
|--------------------------------|--|
| 1. Price index | 5. Wholesale |
| 2. Fuel, raw materials, metals | 6. Agricultural goods and the products of their processing |
| 3. Contract | 7. Machinery and equipment |
| 4. World | |

Calculated from the data of Tables 1, 3 and 5.

In addition to this fundamental difference, the development of the process of pricing, if we compare the two stages, is also characterized by a different dynamicity of the changes in prices. In our opinion, a smoother change in the indices of the individual types of prices is characteristic of the first stage as compared with the second stage, when in half as long a segment of time very significant shifts occurred in the levels and correlations between the contract, world and wholesale price indices. However, this general and unambiguous assessment, obviously, cannot be precise above all because the degree of change of the price indices in the individual groups was distinguished by great nonuniformity. As the chart shows, during both periods the indices of all the types of prices in the group of fuel, raw materials and metals changed the most intensively. The dynamics of the contract and world price indices of agricultural goods developed much more smoothly at the first stage, then at the second stage, starting in 1971, the rates of change in these indices increase sharply, although they lag behind the rapid jump in the prices of fuel and raw material goods. The price indices for machinery and equipment during the entire period being analyzed

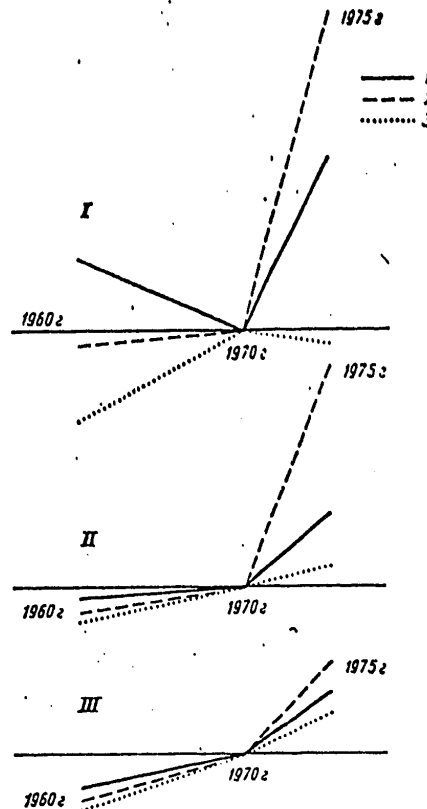
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increase uniformly and compactly, with only a gradual acceleration of the rates toward the end of the second stage. Thus, to all appearances, the group of fuel and raw material goods should be regarded as the most dynamic, after it comes the group of agricultural goods and the products of their processing, and machinery and equipment complete the series.

Chart of the Movement of the Contract, World and Wholesale Price Indices During 1960-1975 Using the Example of Various Groups of Goods (1970 = 100)

- I--fuel, raw materials, metals;
- II--agricultural goods and the products of their processing;
- III--machinery and equipment;
- 1--contract price indices;
- 2--world price indices;
- 3--wholesale price indices.



The dynamics of the indices of the different types of prices formed in a different way also in connection with the fact that they displayed their activity differently during different periods. For example, the wholesale price indices were most dynamic from 1960 to 1970, the contract price indices were more active at the second stage and for the group of fuel and raw material goods also during 1960-1970. The world price indices, the most dynamic of the three types, displayed the greatest activity in 1973-1975.

In comparing the two stages substantial shifts also stand out very noticeably in the nature of the interrelations between the contract, world and wholesale

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price indices. For example, in the cited chart it can be seen very well that for all three groups at the first stage the contract price indices were invariably higher than the world and wholesale price indices, being, however, at the same time closer with respect to the world price indices. The contract and world price indices for agricultural goods, machinery and equipment drew especially close to each other, while in the group of fuel and raw material goods there is a very significant gap between them. However, since in this group too the contract price indices were nevertheless closer to the world price indices, in our opinion, it is quite legitimate to state the general conclusion that at the first stage a close inclination of the contract price indices precisely to the world price indices, and not the wholesale price indices, existed.

At the second stage, as a result of an unusual "change of the leader," the direct contract price index is shifted to the middle position--lower than the world price indices and higher than the wholesale price indices, which at the same time equalized the interrelations of the contract price indices with respect to both the former and the latter. And the quantitative proportions between the contract and world price indices at first even in general did not change very sharply, having undergone a fundamental deformation later, in connection with the extraordinary events of 1973-1974. But then the interrelations of the contract price indices with the wholesale price indices immediately became closer; the proportions between them worsened slightly only after 1975.

Thus, as a result of the overall structural regrouping of the system of established interrelations between the contract, world and wholesale price indices and especially as a result of the very significant shifts in their dynamics, which is typical of recent years, there emerged a tendency toward a relatively more noticeable deviation of the contract price indices from the world price indices than from the wholesale price indices. However, this situation might not be maintained in the next few years, first, as a result of the further adjustment of contract prices in the direction of bringing them closer to world prices (the first results of the adjustment have already affected the group of fuel, raw materials and metals, in which in 1975 the correlation between the contract and world price indices became more favorable than between the contract and wholesale price indices); second, in connection with the fact that the probability of certain changes in world prices is not at all ruled out.

And, finally, as an overall result it is necessary to emphasize that, since the study of the formed dynamics of the contract, world and wholesale price indices makes it possible to analyze the degree of implementation of the pricing principles adopted by the countries during the past period, to identify the main factors which governed the fundamental nature of their movement and then to take the obtained results into account in the process of the further work on improving the system of foreign trade prices, the constant monitoring of the movement of these indices affords extensive opportunities by means of the practically reasonable regulation of the

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interrelations forming between them to achieve the active and selective involvement of the price factor in the improvement of the planning mechanism of the cooperation of the CEMA countries.

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Chapter 3. The System of Foreign Trade Prices of the CEMA Countries

Because of its high degree of generalization Marx' definition of the price as the money expression of value is exhaustive from the theoretical standpoint in describing prices of any category and any value level, bringing them together in a common "generic" concept of prices. At the same time, the category of the price is an altogether concrete phenomenon from the standpoint of the practice of price determination. In real life there are no universal and generally recognized prices which are indifferent to the typical sales terms and peculiarities that prevail on individual markets--national markets, regional markets and the world market. In their socio-economic nature prices are homogeneous with the market whose needs they regularly serve and they are either its organic product or are subject to fundamental adjustment and transformation under its influence.

Recognition of the thesis of the direct dependence of prices on the nature of the market makes it necessary by the laws of logic that an analysis be made of the specific interrelations between the international market of the CEMA countries and its prices. It seems to us that that particular socio-economic context under whose conditions the process of formation of the system of prices of the international market of the CEMA countries takes place under the influence of specific value criteria is in principle determined by the specific nature of international socialist production relations and the characteristic peculiarities of its trade-policy regime. Those peculiarities of the international market of the CEMA countries which we believe should be mentioned first include the following:

- i. its planned socioeconomic nature;
- ii. creation of a complex of mutually complementary national economic structures of the CEMA countries on the basis of regional division of labor among them, which stimulates development of mutual trade;
- iii. higher concentration and intensity of mutual economic relations by comparison with the participation of the CEMA countries in worldwide trade;
- iv. the existence of an independent monetary system ensuring stability of settlement and credit relations;

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v. application of the principles of full equality and mutual respect of the interests of all cooperating parties in the foreign trade of the CEMA countries.

This broad set of factors, which has a very diverse influence on the process of the foreign trade price determination of the CEMA countries, has in practice determined the character of the system of prices in effect in mutual trade among them as mutually advantageous economic indicators which have been determined in conformity with a plan.

The place of the principal economic-legal norms which officially regulate the practice of the determination of contract prices is taken by the system of current principles and methods of price determination recommended by the relevant organs of CEMA. In particular, the Comprehensive Program sets forth the principle that these prices should be set "on the basis of world prices adjusted to eliminate the harmful influence of conjunctural factors of the capitalist market."¹

In our view the principal reason why it is possible and legitimate from the standpoint of principle to use world prices as an objective base criterion in the process of determining the system of contract prices is that the movement of prices in international trade ultimately reflects the movement of the international value of the production of commodities over a period of time approximately equal to the length of the capitalist cycle of reproduction. The practical expediency of this choice of a base for contract prices arose from the fact that the commonwealth of CEMA countries is not isolated from the rest of the world, but, on the contrary, is included in the structure of the world division of labor and world economic relations and maintains active foreign economic relations with advanced capitalist and developing countries. Therefore the price levels and relations of international trade now have for the CEMA countries not only the importance of an objective economic criterion characterizing the movement of international socially necessary expenditures of labor which they use as a reference in setting prices in their mutual trade, but they are also applied rather widely as real prices and relations in the practice of their trade relations with third countries. Given those conditions, it is obvious that an attempt to isolate the process of price determination on the international market of the CEMA countries from worldwide conditions of trade would not only be unobjective, it would also be unrealistic.

C. T. Bogomolov notes a number of constructive aspects of world prices as a base: "First of all, this is an altogether realistic base; it serves world trade and will obviously serve it for a long time to come. Second, world prices reflect many progressive tendencies in technical development and in the rising productivity of social labor which the socialist countries must take into account. Finally, having a single base for prices in the trade of the socialist countries with one another and for their trade with the capitalist countries makes it easier for them to plan and regulate their foreign economic relations as a whole and promotes the development of relations between countries belonging to the two different social systems."²

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The use of world prices--of this base which at first glance seems "ready-made"--need not cause particular difficulties in their use as the basis for determining contract prices. But as an economic criterion world prices are not irreplaceable by any means. As a category of international commodity markets, they are subject to the constant distortive influence of the policy of the monopolies, to the deforming effect of the cyclical nature of capitalist production, and also to haphazard occurrences of inflationary processes and not infrequently an outright speculative situation in relations between supply and demand on the world market. For that reason, and a specific qualification in this respect is contained in the Comprehensive Program, it is an unfailing condition for application of this base in the mutual trade of the CEMA member countries that world prices be "adjusted" in advance to eliminate various types of overlays of a typically conjunctural and speculative nature unacceptable to the foreign trade regime of socialist countries.³

As one well might judge on the basis of the available experience, world prices are now adjusted in the process of foreign trade price determination in the following directions:

- i. the partners in mutual trade agree on the selection of the principal commodity market whose prices are to be taken as the base;
- ii. agreement is reached on methods of eliminating the influence of cyclical patterns and conjunctural, speculative and other factors;
- iii. contract prices are adjusted in order to achieve qualitative comparability with world prices of base commodities;
- iv. comparability is achieved between contract prices and world prices with respect to the terms of payment;
- v. the shipping component of contract prices is calculated.

Since in international trade there are ordinarily several commodity markets for any particular commodity, one of which must be given preference, CEMA organs have worked out a special methodology that governs the principles of selecting the principal commodity markets. According to this methodology, the initial classifying criterion of a sector commodity market is its leading position in international trade in that particular commodity. This means a center of world trade on which a major or at least very substantial portion of the commercial transactions take place without monetary restrictions. The markets singled out in this way are then evaluated from the standpoint of which of them gravitates more toward the interested CEMA countries in geographic and economic terms. In deciding this question prior right is ordinarily given to purchasers, and then consideration is also given to the interests of the seller assuming that agreement will ultimately be achieved. This methodological principle has perhaps decisive importance to selection of that commodity market whose prices will be taken as the base.

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As experience has shown, the market of the largest exporter of the particular commodity, the market whose prices essentially determine the character of the movement of prices on other markets as well, is in most cases chosen as the leading market. In some cases the prices of the leading importer may also be taken if they exert a sufficient impact on price changes in the international trade in that commodity.

The general methodological principles we have stated may be modified to some extent as a function of the specific peculiarities of the markets for certain commodities or in connection with specific circumstances. For example, since in the case of machines and equipment, by contrast with raw material products and even many types of industrial goods, there are no clearly defined centers of international trade, the concept of a principal commodity market is in large part a convention. Usually, then, prices published in the offers of various firms belonging among the world's best known producers and exporters of machines and equipment are taken as world prices in this case. Moreover, sometimes list prices from manuals are also used as reference data for this purpose because in real transactions very substantial discounts and premiums are ordinarily applied to them.

Other departures are also possible. For example, in situations when it has not been possible to single out one of the markets as the principal one, the base world price may be calculated so as to take into account the prices of two or more world markets for the particular commodity. Though in accordance with the requirements of the principle of price uniformity the initial base price of a particular commodity must be the same for all countries, in justified cases and as an exception it is permitted for certain countries to use the prices of other markets as well as the base prices. We should note that selection of a particular commodity market as the basic market does not constitute a precedent to be followed in the next revision of contract prices if substantial changes have taken place in the conjuncture of world trade.

This stage of adjustment, then, which makes it possible to obtain a comparatively objective idea of the movement of international socially necessary expenditures of labor thanks to the thoroughness of the selection of the principal commodity markets and of their prices, has great importance to economically sound determination of prices in mutual trade among the CEMA countries.

But the prices of the principal commodity markets, even when they are selected so as to take into account the interests of buyers and sellers, by virtue of what they are, still retain almost completely the imprint of the influence of various factors of a conjunctural, speculative and inflationary character and therefore need appropriate adjustment.

It is comparatively easy, as experience has shown, to eliminate the results of the influence on world prices of short-term seasonal factors, factors which are manifestly speculative or discriminative, and other conjunctural

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factors. On the assumption that in the course of a year the major part of seasonal price fluctuations will be smoothed and evened out to a considerable degree, the CEMA countries have for more than a decade used in their calculation only average annual levels of world prices, in which all the "peaks" of daily and even monthly fluctuations are canceled out. One-time acts of adjustment are also performed sometimes to eliminate particular disruptions in the conjuncture of world trade prices: for example, the well-known omission of first-quarter prices for a number of goods from the calculation of the average annual world price level for 1957 because they had jumped sharply upward in the period of the Suez events. Numerous examples in the past when certain countries have refused to revise the existing level of contract prices if abnormal phenomena were noted in the conjuncture of world prices can also be essentially regarded as the result of passive adjustment. In exactly the same way they have always described the application of discriminatory prices against the socialist countries on the capitalist market as unobjective, and they were never taken into account in adjustment.

So, we have examined the method used in the practice of price determination for eliminating short-term and episodic fluctuations in world prices of a noncyclical nature.

It is a more complicated task to eliminate consequences of the influence of factors of a cyclical origin on world prices. Long-term observations of the movement of world prices in the period of the entire cycle show that the degree of fluctuation of prices, the directions of the deviations and their intensity vary greatly in the principal phases of the cycle. For example, whereas rising prices are typical of the phases of invigoration and womb, in the phases of depression and crisis, on the other hand, they experience a noticeable drop. Moreover, every cycle has its own peculiarities. For example, the slump in the capitalist economy following the 1973-1974 energy crisis was not accompanied by the price drop that ordinarily accompanies depressions, but was accompanied on the contrary by a rather intensive rise of prices. Looking upon the cyclical fluctuations of world prices as the typical manifestation of the specific nature of the capitalist economic system, a manifestation fundamentally inapplicable to the conditions of planned foreign trade relations, the CEMA countries agreed to use the method of calculating base world prices by taking the average prices for the 5-year period preceding the planning period in order to safeguard contract prices from their influence. This made it possible not only to cancel out short-term price fluctuations (the average for the 5-year period was calculated on the basis of the average annual level of prices), but at the same time to even out to some degree the fluctuations in prices occurring over the length of the cycle. In the last two 5-year periods contract prices were set on a base calculated according to this method.

It is also symptomatic that in principle this method was also applied to the 1976-1980 trading period, but so as to take into account certain peculiarities of the present-day conjuncture in world trade related to sharp changes

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in world price levels and relations in 1973 and 1974. Since the CEMA countries were confronted with the task in calculating the new base of prices not only to make provision for the need of a possible adjustment to eliminate cyclical fluctuations, but also to ensure more flexible adaptation of contract prices to the new conditions, it was decided to use the method of a sliding or flexible base, once again calculated as the average for the 5-year period, but with the provision that every year one of the years will be replaced so that each time prices for the 5-year period immediately preceding the year for which the base is determined will serve as the base. For example, the base for 1977 was calculated from 1972-1976 world prices, for 1978 it was calculated on the basis of prices for the 1973-1977 period, and so on. The main point of this adjustment is by averaging world prices over a comparatively long period of time to achieve more accurate reflection in their adjusted levels of the dynamics of international value and to thereby strengthen the objective character of this base category.

One of the compulsory conditions for objective application of world prices as the base value criterion is ensuring comparability in terms of quality between similar goods in circulation in world trade and in the mutual trade of the CEMA countries and subsequently registering the results of that comparison in the determination of contract prices. Since goods of widely varying quality are involved in international trade, comparisons and price revisions of this kind have to be undertaken rather often. For example, the group of machines and equipment is heterogeneous in terms of quality, many types of industrial and agricultural raw materials have different use value coefficients, and so on.

It is a complicated and time-consuming process to register the quality factor in the prices of goods. One must have a thorough knowledge of manufacturing processes and possibilities for the use of goods to make a correct value assessment of differences noted in quality and to objectively reflect the principal advantages and shortcomings related to their production and consumption in value form in the prices of the goods. In practical terms this ordinarily takes the form of assigning to individual exporters discounts for lower quality and premiums for higher quality of their goods.

The practice of price determination has turned up quite a few examples when various formulas were used and special methods worked out for recalculating the prices of qualitatively different goods. To be specific, K. I. Popov gives a specific and very vivid example of such a comparison, one which illustrates the method of calculating the prices of hydroturbine equipment of hydroelectric power stations. He notes that one of the principal specific cost characteristics in turbinebuilding--specific cost per kilogram of turbine weight--is used for a value assessment of a hydroturbine mainly from the standpoint of its technical level and the labor intensiveness of its manufacture. The following formula is accordingly used to calculate the export price of a hydroturbine:

$$P_1 = P_2([W_1 \cdot d]/[W_2 \cdot 100]),$$

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In which P_1 --calculated export price of the hydroturbine;
 P_2 --export price of the hydroturbine taken as the basis of calculation;
 W_1 --weight of the hydroturbine to be exported;
 W_2 --weight of the hydroturbine whose price is being used as the basis of the computation;
 d --difference in the specific weight value (in percentage) as a function of turbine weight and model (determined from special tables).

Moreover, since another indicator, the specific cost per kilowatt-hour of installed capacity of the unit, is also important to a value description of hydroturbine equipment from the standpoint of its economic efficiency and operation, this formula was supplemented by computation of the functional relationship between the specific labor intensiveness per kilowatt-hour of capacity and the specific cost per kilowatt, which, as the calculations showed, yielded a 15-20 percent reduction of the specific cost per kilowatt-hour of hydroturbines of the same type when the capacity of the unit was increased from 20 to 50 megawatts.⁴

Understanding the importance of this stage of adjustment to price determination, CEMA organs devote constant attention to improving the methods of registering in prices the differences between quality characteristics of commodities being compared.

Since in setting prices intended to be used in mutual trade among CEMA countries one must deal with the prices of the world capitalist market, which reflect the typical peculiarities of the system of commercial payment on the capitalist market, in a number of cases contract prices have to be adjusted to take into account terms of payment. The following situations can be cited as concrete examples.

i. Suppose we know that a purchaser on the capitalist market has been granted short-term credit (90 days) to pay for goods. Though in this case the prices remain the same, in essence this still signifies an obvious advantage of the credit form over cash payment, especially when during the 90-day credit period a price change occurs that is unfavorable for the customer. Of course, the adjustment of world prices to take this circumstance into account depends on the specific conditions and understanding of the partners in mutual trade.

ii. If it follows from the documentation on world prices of actual deals that a customer has been granted a discount for cash payment (usually between 0.5 and 3.0 percent of the amount of the bill, as noted in one of the specialized books on the problems of price determination in international trade)⁵ or for faster payment. Since this benefit essentially has a direct impact on the actual price, actually lowering its level, it should obviously be taken into account when contract prices are set on the basis of that price.

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iii. If countries have to use the prices of barter operations (say, of the clearing type), whose level may be affected by mutual countersales and purchases, then obviously a need also arises for an appropriate adjustment of the prices; otherwise the possibility is not excluded that prices higher or lower than the usual commercial conditions of trade might be taken as base criteria.

iv. If prices are given in a currency that is not freely convertible and which has a restricted domain or in some unstable currency with a tendency toward devaluation, which is especially typical of the present-day conjuncture of the world market, then obviously the use of such prices as the base carries with it the risk that the consequences of inflation, speculation, crisis and other ailments of the capitalist system might be carried over into the conditions of trade between CEMA countries. That is why the CEMA countries usually avoid using prices at an inflationary level or prices given in a currency that is not freely convertible, prices which have experienced the impact of currency restrictions of various kinds or other violations of a normal monetary regime in international trade, especially in view of the fact that recently there has been a substantial undermining of confidence in even such a "hard" currency as the dollar, not to mention the pound sterling, and the monetary function of gold has lost much of its significance. This circumstance makes it indeed necessary, in our opinion, that contract prices be adjusted more strictly so as to safeguard them more strongly against the consequences of the inflation that is overwhelming the capitalist world.

The directions of possible adjustment we have noted and which derive from certain peculiarities of terms of payment in trade between capitalist countries do not, of course, always take on such proportions that they can essentially influence the level of world prices, in which case they can, of course, be ignored. At the same time, it would in our view be very rash to underestimate the possibility under certain conditions of a serious adverse effect of these peculiarities on the process of foreign trade price determination of the CEMA countries.

The effort to ensure the fairest possible distribution of economic advantages and disadvantages arising out of the geographic position of the socialist countries relative to world markets and to one another is the general principle that determines the condition for adjustment of shipping costs included in the contract prices. In accordance with this principle the system for taking shipping costs into account in contract prices is now structured as follows:

When commodities are shipped between countries which have a common land border, the price is set fob the border. In this case half of the shipping expenses from the commodity market used as the base to the border of the purchasing country is added to the base price.

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2. When the countries do not have a common land border, but when land shipping routes can be used, deliveries are again made on the terms of prices fob the border, but the addition to the base price to cover shipping is defined as half the difference in the cost of delivery from the market taken as the base to the importing country and from the exporting country to the purchasing country over the territory of third countries. Should the difference be negative, then half of it is not added, but is subtracted from the base price.

3. When goods are delivered by sea on fob terms, half of the difference between the shipping costs from the principal commodity market to the port of the purchasing country and the shipping costs from the port of loading of the selling country to the port of destination of the purchasing country is added (if positive) to the base price or subtracted (if negative) from it.

4. When deliveries are made by sea under cif terms insurance costs are added as well as half of the difference between the shipping costs from the base market to the port of the importing country and the shipping expenses from the port of loading of the selling country to the port of destination of the purchasing country. If negative, the difference is subtracted from the total of the base price, the shipping costs and insurance costs.

As we see, the cost of transshipment of goods on the territory of the supplying country is not included in the shipping element of the price.

Thus in mutual exchange of commodities individual CEMA countries inevitably either derive benefits from the standpoint of shipping costs, or they incur losses, when they compare the shipping costs included in the contract prices with the costs they would have in delivery of goods were they purchased on world markets. The importing country finds itself in a preferential position when the world market is at a greater distance from it than from that socialist country from which it is purchasing goods. On the other hand, if the world market is located closer to the importing country than to the socialist country from which it is purchasing certain commodities, then the proportion of the shipping costs included in the contract prices is larger than the level of shipping costs were the goods delivered from the world market.

Moreover, we believe there are two other methodological points that need to be clarified in a discussion of the question of adjustment of shipping costs. First, in order to make the calculations more objective, when the value of these costs is being determined, freight rates or rail rates are mostly taken on the basis of regular shipments of sizable amounts of freight rather than those for individual random shipments. Second, shipping charges are calculated as the average for the same calendar period taken in determining the world prices used as the base.

The process of adjustment of the world prices ends with calculation of the shipping component.

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Thus adjustment of world prices to eliminate the harmful effect of conjunctural, speculative and cyclical factors of the capitalist economy, except in the case of shipping costs (which we will speak about later) essentially strengthens the effect of objective tendencies bringing world prices closer to the international value on a worldwide scale. As we have been able to see, that is in principle the orientation of the entire character of the adjustment of world prices now practiced by the CEMA countries. But if in the process of this adjustment the task of maintaining the indispensable economic relationship between contract prices and their present-day basis is satisfactorily performed, and this is unquestionably one of the virtues of the present practice of price determination, hardly any provision has been made for methods of direct adjustment of world prices in order to take into account the socially necessary conditions of production and sale prevailing within the limits of the commonwealth of the CEMA countries. However, the question of selecting the goal, methods and criteria of adjustment have great fundamental importance from the standpoint of methodology. V. P. D'yachenko, corresponding member of the USSR Academy of Sciences, for example, has expressed his attitude toward this problem as follows: "The principal task of improving the present system of contract prices, which are determined by adjusting the prices of world commodity markets taken as the base, lies in giving maximum possible consideration to the conditions under which products are produced and sold in the socialist countries.... There is a need for scientific development of criteria and methods for adjusting world prices whose use would make it possible to overcome or mitigate the various obstacles to development of the international socialist division of labor engendered by the use of world prices as the base of contract prices."⁶ This viewpoint, which V. P. D'yachenko expressed nearly 10 years ago, is taking on particular relevance, in our opinion, in the present period of intensified development of integrative forms of cooperation among the CEMA countries, for which precisely that direction in adjustment could become predominant.

For example, even now an acute need is felt for contract prices to register ever more fully the conditions of production and distribution of the CEMA countries so as to motivate more elaborate industrial specialization and cooperation and increased mutual trade in products produced in this way, since world prices, when not adjusted from the standpoint of internal conditions, do not provide a sufficiently effective criterion for this. And as a matter of fact, it would seem that if a product produced on the basis of specialization has a lower cost (which in any case it should have), then on that basis contract prices should also be lower, and that would be in the interest of both purchasers and suppliers. It is always advantageous to importers to purchase goods at lower prices than it would cost them to produce the goods themselves. Exporters, who because of the sizable increase in the volume of production and sale of that product will obtain a constant and ever growing income, even in spite of the lower cost and price per unit of the commodity, are equally interested in production of the product through specialization. This in fact is why specialization makes economic sense: production of a cheaper product in a larger volume. It is also very important in this connection that the economic benefit derived from specialization

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through the price be felt simultaneously both by producers and consumers, because only material motivation of both sides makes it possible to create the conditions for effective development of intergovernmental industrial specialization and cooperation.

It is significant that the issue of the need to improve the methods of price determination for the sake of further development of mutually advantageous relations in production of specialized products has been repeatedly raised in the economics literature of the CEMA countries, including from the standpoint of fuller realization through prices of the advantages of the division of labor among them. To be specific, attention has been called to this by V. N. Zhukov and Yu. Ya. Ol'sevich when they wrote that "the orientation toward world price relations when internal conditions for the production and sale of products within the CEMA member countries are incompletely or inconsistently taken into account will in future, in a higher stage of development and integration of the CEMA countries, prove to be an obstacle to more elaborate and mutually advantageous specialization of their production."⁷ The principal reason why this conclusion seems sound to us is that the economic benefit from specializing the production of certain types of products arises under the specific conditions of production and distribution and can therefore be realized only through prices so constituted as to take these conditions at least partly into account.

Given the need to regularly convert the world base prices expressed in various monetary units of the capitalist countries to transfer rubles, which are the collective currency of the CEMA countries, as a consequence of the fluctuations of even those currencies which were previously the "hardest," which have become much more intense in the context of the general crisis affecting the capitalist monetary system, there naturally arises a need, one that is fully justified from the economic standpoint, for a special adjustment in order to maintain that high stability which the transfer ruble has as a specific international economic category (that is, here again we are essentially talking about adjustment of world prices on the basis of internal conditions of exchange within the limits of the commonwealth of CEMA countries). In our view this direction of adjustment is becoming all the more advisable in the light of the annual revision of contract prices on the basis of world prices, which in part are absorbing the consequences of the most diverse conjunctural and inflationary factors.

It seems to us that various forms of adjustment applied to both contract prices and also the transfer ruble could have a constructive effect in this situation. For instance, one of the permissible forms of adjusting contract prices might be to observe an optimum economic distance when necessary between contract prices and world prices: for example, with respect to changes in world prices that are manifestly based on inflation. When changes in world prices are small or do not result from objective causes, adjustment can in general be expressed simply in the form of an extension of the validity of the contract prices beyond the end of the year. Acceptable ways that might be adopted for adjusting the transfer ruble might in our

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opinion include either an outright change of its rates of exchange against currencies of the capitalist countries which are losing value or periodic application of special corrective coefficients calculated as a function of the depth and intensity of the development of inflationary processes in the international trade of the capitalist countries.

The present period of the transition to systematic adjustment of contract prices for a broad range of commodities exchanged on the international market of the CEMA countries also seems to us very conducive to a greater effort in foreign trade price determination to take into account relations between supply and demand under the conditions of the mutual trade of these countries. As we know, for long years the factor of supply and demand was very little taken into account in the determination of contract prices, since prices were revised simultaneously for almost all goods and were then left practically unchanged for several years. This essentially amounted to fixing for a long time a relation between supply and demand which was basically characteristic of the world capitalist market at the moment when the revision was made. Only when the next change was made in contract prices did it again become possible to correct them, supply and demand being one of the factors taken into account. It is altogether natural, then, that a moment should inevitably come in such a situation when one of the sides would begin to look upon the prices in effect as economically unsound and the conditions of trade disadvantageous.

To be sure, in recent years the acuteness of the problem of the failure to fully reflect the factor of supply and demand has diminished somewhat because the prices of particular groups of commodities have begun to be revised more often, and when possible the current and future relation between supply and demand on the international market of the CEMA countries is taken into account. For example, because of the high rate of renewal of the assortment of products of machinebuilding and the chemical industry, which is constantly causing shifts in the relations between supply and demand, more flexible contract prices which respond faster to new conditions are now being set for these goods, and the time intervals between price revisions have become shorter. Flexible and elastic prices sensitive to the conjuncture of the market are also more suitable to the exchange of products of light industry, which undergo a rapid change in quality and assortment under the influence of fashion (but not enough has yet been done in this regard). At the same time, for fuels and raw materials which have lengthy production and investment cycles and constant quality characteristics and which are therefore less susceptible to fluctuations in the context of normal conjuncture, there is ordinarily no need to increase the frequency of revisions of contract prices. The comparatively stable state of supply and demand for foodstuffs because of the constancy of their consumer characteristics and the fairly high accuracy in forecasting import needs and export possibilities on the basis of scientific levels of nutrition also makes it possible to use contract prices which remain in effect for a long period of time.

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Under present conditions, because of the considerably expanded possibility of taking into account the effect of the supply and demand factor in setting contract prices, the principal task is obviously to realize its results more fully and competently by constantly improving the methods of adjustment.

In the opinion of many economists of the CEMA countries there is a particularly urgent need to take into account intraregional conditions in the determination of shipping costs included in the contract prices, since the very process of calculating shipping costs is not based on the actual costs of the countries involved in transporting the goods involved in mutual deliveries, but on an artificially devised scheme of "assumed" shipping costs, though steps are being taken in this respect toward relatively fair distribution of hypothetical benefits and losses among the countries.⁸ However, it is certain that the level of actual costs involved in mutual deliveries of goods between the CEMA countries in many cases differs very substantially from the total costs now included as shipping costs in foreign trade prices under the present conditions of their computation. To be specific, on certain goods--for example, lumber and timber, petroleum, cotton and certain others--this difference is a multiple of the amount involved. If we also take into account that shipping costs represent 40-50 percent of the prices of certain goods, it becomes clear that we are talking about a very appreciable influence of shipping costs on the levels of efficiency of foreign trade and of a consequent need for a substantial restructuring of methods of calculating the shipping components so as to make more effective use of the transport factor to improve the structure and geographic distribution of freight flows in foreign trade and to achieve more optimum location of the productive forces within the limits of the commonwealth of the CEMA countries.

Thus in our view one of the fundamentally important directions for improvement of the present practice of price determination on the international market of the CEMA countries is that the methods now used for adjusting world prices need to be supplemented so as to take into account the conditions of production and distribution within the commonwealth. We can anticipate that a combination of these two directions of adjustment would promote a substantial rise in the scientific soundness of the process of foreign trade price formation of the CEMA countries.

Constant improvement of the methods of price determination is a natural process that conforms to a particular pattern. New directions in the economic policy of the country always make it necessary for appropriate changes to be made in the forms and methods of guidance of the economy so as to make them more effective. The most important requirement methodology must meet in such a situation is to guarantee responsiveness and a creative approach to solving the various problems that arise in the theory and practice of price determination.

Experience in using the method of calculating contract prices on the basis of average world prices for the 5-year period preceding the planning period

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seems to us instructive in this regard. There was a need for very responsive steps, a year in advance of the period being planned, and a really creative approach to the problem in order to find a methodological solution to the problem of a method of computing the base for contract prices appropriate to socialist principles of price determination when the economic relations between contract and world prices prove to be almost completely disrupted for all practical purposes because of the unprecedented upheavals of the price system of the world capitalist market. For example, the following figures are sufficient for illustration: between 1972 and 1973 world prices for wheat and diesel fuel doubled, wool prices rose 1.8-fold, prices of vegetable oil and sugar rose 1.5-fold, and those of petroleum, cotton, lead and zinc rose 1.3-fold; in 1974 prices again rose for many of these commodities, sometimes still faster: for example, 3.5-fold for petroleum, 1.5-fold for sugar, lead and wheat, and so on.⁹

Thus right at the beginning of the preparation for the regular revision of contract prices for the 1976-1980 period, an extraordinary economic situation came about in the price system of the world capitalist market, and the CEMA countries had to take a fundamental position concerning it. The main problem which had to be solved was that of the advisability of using the method of devising contract prices which was in effect at that time, which meant taking as the base not only the relatively stable prices of the principal commodity markets for 1971 and 1972, but also the prices of 1973 and 1974, which had experienced very intense deformation. All of this necessitated a thorough economic analysis of the principal tendencies of development and actual state of conjuncture of world prices at the end of 1974 and the beginning of 1975.

The thorough situation analysis of the problem made at various levels and from various aspects made it possible to discover a number of specific new characteristics which have great importance to determining contract prices on the basis of world prices. Taking these characteristics into account has ultimately had a determining impact on the character of the solution adopted by the CEMA countries concerning the method of calculating the new base. We find the following to be the most significant of those characteristics.

1. The considerable acceleration of the rates of change of world prices. For instance, whereas during the sixties and early seventies the average annual changes of world prices remained within the limits of 3-5 percent, beginning in 1973 and later the changes went even as high as several tens of percentage points, i.e., the period of relative stability of price conjuncture of the world capitalist market was replaced by a period of their highly dynamic change.

2. The growth rates of prices of fuels and raw materials was faster than the average, and the run in advance of the jump was actually taken back in 1971 and 1972. There is evidence of this in the figures given in Table 8.

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Table 8. Movement of Export Price Indices in International Trade and Relations Among Them (1970 = 100)

Year	Overall Index		Price Index of Finished Product	
	Average Annual	Change Relative to Previous Year	Average Annual	Change Relative to Previous Year
	1	2	3	4
1971	106	+ 6	105	+ 5
1972	114	+ 8	113	+ 8
1973	142	+28	133	+20
1974	199	+57	162	+29
1975	213	+14	182	+20

Year	Price Index of Raw Materials		Relation Between Price Indices of Raw Materials and Finished Product
	Average Annual	Change Relative to Previous Year	
	5	6	
1971	114	+ 14	109
1972	125	+ 11	111
1973	180	+ 55	135
1974	308	+128	190
1975	302	- 6	166

Source: U.N. MONTHLY BULLETIN OF STATISTICS, April and November 1977.

As shown by the figures in Table 8, on the one hand the growth rates of prices of raw materials were actually higher than the growth rates of prices of finished products and the overall price index, but on the other hand the figure for 1975 is possibly the first signal that this process had already definitively passed its apogee.

3. Establishment of new proportions between the prices of raw materials and finished industrial products, at present mostly more favorable for raw materials, which is also shown rather fully by the figures in Table 8, though these figures indicate that the terms of trade for raw materials, which in absolute terms were more favorable over the last 5 years, deteriorated somewhat in relative terms in 1975 as a consequence of a certain drop in the export price index for this group of commodities.

4. The substantial size and generality of changes in the system of prices of the world capitalist market. For instance, in just 5 years (1971-1975) the overall export price index of the principal commodity markets more than doubled, the raw materials price index nearly tripled, and the price index of finished industrial goods rose almost 1.8-fold. In the opinion of economists of the CEMA countries, these changes resulted from the impact of objective economic and political factors that figured as the cause of these

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sizable shifts in the formation of international value and determination of prices. First of all, in our opinion, we should note the major changes in the balance of political and economic power in the world, which has given a new role to the developing countries; the vigorous impact which scientific-technical progress has on the character of price determination; the monetary system of capitalism is unable to cope with the consequences of the fact that the money supply in the capitalist economy is growing faster than the supply of goods;¹⁰ the prolonged lag of the production of many types of raw materials behind the growing needs as a consequence of deterioration of the natural conditions for extraction and the need for large investments when the rate of return on the capital invested is comparatively slower.

So, taking into account the objective and irreversible nature of the changes that had occurred and paying attention as well to the fact that the gap that had occurred between contract prices and world prices had not this time occurred as the result of ordinary accumulation of usually small discrepancies between them, but as a consequence of stable and very sizable changes in the dynamic behavior and relations of world prices, the CEMA countries deemed it advisable to respond by gradually taking these changes into account in successive adjustments of contract prices by applying a flexible price base. As we know, the first preliminary stage in adjustment of contract prices took place in early 1975, and later prices for 1976, 1977 and 1978 were respectively brought into conformity with the new base. We believe that the best assessment of the results of this work is provided by the observation in the communique of the 30th CEMA Session to the effect that along with the other important achievements in economic and scientific-technical cooperation and implementation of the Comprehensive Program in the 1971-1975 period, "the member countries of CEMA found a mutually advantageous solution to the complex problems of price determination in their mutual trade."¹¹

FOOTNOTES

1. "Kompleksnaya programma dal'neyshego uglubleniya i sovershenstvovaniya sotrudnichestva i razvitiya sotsialisticheskoy ekonomicheskoy integratsii stran-chlenov SEV" [Comprehensive Program for Further Extension and Improvement of Cooperation and Development of Socialist Economic Integration of the CEMA Member Countries], Moscow, Politizdat, 1971, p 49.
2. Bogomolov, O. T., "Teoriya i metodologiya mezhdunarodnogo sotsialisticheskogo razdeleniya truda" [Theory and Methodology of the International Socialist Division of Labor], Moscow, Mysl', 1967, p 219.
3. On behalf of a further examination of this problem, we deem it advisable and timely from a methodological viewpoint to formulate in this stage of the analysis the principal characteristic features inherent in the category of world prices. It seems to us that V. A. Shil'dkrut, whose position we fully share, has provided the most precise scientific

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definition of world prices: "In contemporary reality the foreign trade price, so that it can be taken as a world price, should satisfy the following basic requirements:

"First, it should be the price used in ordinary large commercial deals, which envisage separate export or import transactions not related to one another.

"Second, as a rule payments in these commercial transactions should be made in a freely convertible currency.

"Third, they should be prices of regular, not random, export or import commercial transactions concluded in the most important centers of international trade, where foreign trade transactions are constantly conducted in a sizable volume" (Shil'dkrut, V. A., "Sovremennyy kapitalizm: problemy tsen" [Contemporary Capitalism: Price Problems], Moscow, Mysl', 1972, p 219).

4. Popov, K. I., "Razvitiye ekonomicheskikh svyazey stran sotsializma" [Development of Economic Relations of the Socialist Countries], Moscow, Mysl', 1968, pp 137-138.
5. Sovinskiy, U., "Opredeleniye tsen v trgovle s kapitalisticheskimi stranami" [Determination of Prices in Trade With the Capitalist Countries], Moscow, Vneshtorgizdat, 1963, p 37.
6. D'yachenko, V. P., "Problemy planovogo tsenoobrazovaniya" [Problems of Planned Price Determination], Moscow, Nauka, 1974, pp 449-450.
7. Zhukov, V. N., Ol'sevich, Yu. Ya., "Teoreticheskiye i metodologicheskiye problemy sovershenstvovaniya tsenoobrazovaniya na rynke SEV" [Theoretical and Methodological Problems of Improving Price Determination on the CEMA Market], Moscow, Nauka, 1969, p 51.
8. As a consequence determination of the magnitude of shipping costs on the basis of this method of hypothetical calculation does not essentially ensure the necessary interrelationship of those costs to the actual costs of shipping goods or to international freight rates.
9. Calculated from U.N. MONTHLY BULLETIN OF STATISTICS, April 1976.
10. Yu. Shamray and A. Borisenko have published a very interesting and well-argued article on this topic (MIROVAYA EKONOMIKA I MEZHDUNARODNYYE OTNOSHENIYA, No 7, 1975).
11. PRAVDA, 8 July 1976.

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Chapter 4. Price Determination in the Context of Integrative Forms of Cooperation

In the theory and methodology of foreign trade price determination, as we have shown in the previous chapter, there have in recent years been constructive shifts of unquestioned importance (for example, in the domain of the study of the economic nature of contract prices and the peculiarities of the character of price determination in the present stage of development of foreign economic relations, and in development of the most effective methods of planned use of prices in the mutual cooperation of the CEMA countries), which have had a beneficial effect on development of mutual cooperation. Clarification of these questions has great importance from the conceptual standpoint to the future improvement of the methodology and practice of contract price determination. At the same time, since certain of the principles contained in the Soviet and non-Soviet economics literature of the CEMA countries have still not been fully clarified or are debatable, we believe there is a need to examine them further and strive for greater precision. To be specific, the interpretation of the character of the foreign trade price as a category expected to function primarily in the sphere of distribution, which has now become very widespread, is in our view making the situation definitely unsatisfactory from the methodological standpoint.

To confirm this thesis we will allow ourselves to quote only one of the positions which have been expressed in a very serious theoretical study on the problems of improving price determination on the market of the CEMA countries: "The place where any system of prices operates is the market, which to some degree is relatively free of other markets. The sphere of operation of the mutual trade of the socialist countries is the CEMA market."¹ Thus if we follow this idea out, we need only to add that the place where the prices serving the foreign economic relations of the CEMA countries operate is also their international market.

There is an explanation for this treatment of the category of the foreign trade price, an explanation which, it seems to us, is related by the laws of logic and history to a certain stage in the development of cooperation and correspondingly in the study which economic science of the CEMA countries has made of this problem.

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For instance, proceeding on a purely logical basis from Marx' formula of the price as the money form of value, which is manifested directly under the conditions of exchange, the advocates of this methodological approach to the study of the price, legitimately in terms of the laws of formal logic, have in essence found themselves compelled to limit themselves to only a one-sided description of its external and formal manifestation.

Yet in "Das Kapital" K. Marx repeatedly emphasizes that the money form of value is nothing more than the money form or money mask of a commodity behind which there is the essential content of the phenomenon of the price--value, which, in the very process of reproduction, actually determines the fundamental terms of exchange of goods on the market. There is much to be learned in this respect from, say, K. Marx' statements on the illusoriness of the hypothesis that "commodities are without a price, and money without a value, when they first enter into circulation, and that, once in the circulation, an aliquot part of the medley of commodities is exchanged for an aliquot part of the heap of precious metals."² "... It is not the exchange of commodities which regulates the magnitude of their value, but, on the contrary, the magnitude of their value which controls their exchange proportions."³

Historically, that interpretation, applied exclusively to prices serving the foreign trade relations of the CEMA countries, should be recognized as correct insofar as it is applied to the period when foreign trade was manifestly the predominant if not the only form of cooperation, when it was necessary to use value categories. But under the different conditions, when the new integrative forms of economic relations among the CEMA countries are coming into being, foreign trade becomes as it were derivative from them and to a certain degree loses its exclusive position, at the same time acquiring certain new traits and functions. For instance, one of the specific functions of foreign trade is now participation in the sale of a product manufactured through such expressly production forms of cooperation as industrial specialization and cooperation, joint construction of projects, and so on, since fulfillment of mutual obligations under these forms of cooperation ends as a rule with deliveries in foreign trade, but in a number of cases the need for them also arises in various stages of the process of economic activity.

The relevance and progressive character of this modification of foreign trade practice has been noted by Yu. S. Shirayev: "As an analysis of the makeup of foreign economic transactions as shown, the role of 'purely' commercial relations in the total is experiencing a relative decrease, while the role of forms and methods essentially involving an exchange of activity outside the market is increasing (helping to establish long-term production and technical cooperation between partners from different countries). In this context the most dynamic foreign economic transactions are precisely those which contribute to solving problems of more than one kind and which are by no means reducible to a simple change in the owner of a commodity."⁴

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The changes which have been taking place in the character and directions of the development of the foreign economic relations of the CEMA countries have direct relevance to the problem of improving the system of contract prices and, accordingly, to the shaping of a fundamental theoretical approach to the question of the place and role of prices under the conditions of socialist economic integration. In our view, with development of production and technical cooperation, in which a sizable proportion of goods begin to be produced on the basis of prior orders and for a consumer known in advance, exchange is becoming more and more programmed; this also applies to prices for the products to be produced through integrative forms of cooperation. The factors of production rather than of distribution are gradually beginning to have an ever more active part in the determination of those prices, and distribution is accordingly being given, as already demonstrated above, more the role of a technical intermediary in the sale of commodities on the market. In the final analysis, it seems to us, as a consequence of this "realignment of forces" we should expect an altogether normal trend whereby the distribution sphere will lose the importance it once had in price determination, as will the mechanism it set up for discovering the socially necessary expenditures of labor, and there will be a corresponding "compensation" of this thanks to the simultaneous strengthening of the price-forming functions of the sphere of production as the center of gravity in mutual cooperation shifts in that direction.

Moreover, in our point of view the exchanges expected in price determination will have a beneficial impact on stimulation of very important economic processes within the limits of the socialist economic system.

The setting of prices in the actual stage of production will above all make it possible to exert a still more purposive pressure toward formation of the national economic structures of each country and thereby on the development of the international socialist division of labor within the limits of the entire commonwealth.

As experience has shown, the vigorous constructive role of prices in the process of shaping the optimum structure of the international socialist division of labor can be seen with particular vividness under the conditions of a planned economy. Conclusion of long-term agreements between individual CEMA countries with strictly stipulated volumes of export and import deliveries of commodities at prices which are agreed on and which change in a planned manner, is essentially a planning assignment for the economy of the contracting parties to produce particular products. Thus when contract prices have a direct part to play in the individual countries, basic proportions are shaped in the national economic structure, needs for imports and potential export possibilities are calculated, and the country specializes within the framework of the commonwealth of CEMA countries. The level of these prices is taken into account in the CEMA countries when the effectiveness of existing foreign economic relations is analyzed, when further ways of improving national economic complexes are projected, when the most rational directions for intergovernmental specialization are defined, and when

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plans of future economic relations are drafted. In shaping the system of contract prices the countries also strive for prices to include material incentives which will motivate the individual participants in long-term mutual trade to fulfill the obligations they have assumed. The results in solving these problems in every country have definite importance to the planned shaping of the optimum structure of the international socialist division of labor, which is coming about as the result of the interaction of foreign economic relations among the countries of the world socialist commonwealth. The active involvement of the sphere of production in performing price-forming functions should help to considerably speed up and deepen these processes.

Thanks to the setting of contract prices in the stage of production of commodities under the integrative forms of cooperation broad prospects are also being opened up for taking relations between supply and demand more fully into account in the process of price determination when the national economic plans of the CEMA countries are being coordinated, and this will make it possible for the socialist economy to avert undesirable disruptions in the proportionality of exchange, which is out of reach of capitalism because of the haphazard character of its economy. We find the following argument, for example, quite convincing in this respect: "Under the conditions of capitalism the impact of profound processes taking place in the production sector on the movement of prices is mediated by the haphazard change in the relation between supply and demand. As a consequence something which is only a reflection of essential changes in the sphere of production is taken as the principal and direct thrust in the movement of prices."⁵

Strengthening the price-determining role of the production sphere also considerably expands the capabilities of the price as one of the principal cost-accounting categories of the planning mechanism, and the real economic prerequisites will be created for more active inclusion of prices in the process of joint planning activity of the CEMA countries in the stage of socialist economic integration. This task is becoming particularly relevant at the present time because in the joint planning of the CEMA countries we now observe a stable development of qualitatively new tendencies reflecting a still deeper penetration of cooperation into the production sphere. The development of these tendencies, which is imposing new requirements on the present system of price determination, opens up broad prospects at the same time for a further spread of cost-accounting relations into the domain of planning and coordination of plans of foreign economic activity of the CEMA countries, which constitute the basis for establishing the organic interrelationship between planning and the system of commodity-money instruments.

The fundamental need to achieve an organic combination of planning with the mechanism of commodity-money relations⁶ and, in particular, the task of broader use of the price system as a highly active economic category in the process of joint planning activity of the fraternal countries is in our view predetermined above all by the mandatory requirement that the efficiency and expediency of the planning decisions taken be justified in value terms, that

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the physical indicators of the plan agreed on be confirmed by value estimates, and that a deeper linkage be achieved between physical and value measurements in the various sections of long-range special-purpose cooperative programs and the Coordinated Plan of Multilateral Integrative Measures. The fact that these issues have not been worked out in theory is an essential limitation on the possibility of a realistic evaluation of the effectiveness of measures being planned and to a certain degree can even hold back expansion of cooperation on the scale achievable at a given level of economic development of the CEMA countries.

It obviously is partly because of this that the problem of organic combination of the planning activity of the CEMA countries with the planned use of commodity-money relations has been repeatedly and very thoroughly discussed in the Soviet economics literature and in the periodicals of other CEMA countries. N. V. Bautina, for example, who has been studying a broad range of methodological problems of joint planning activity of the CEMA countries, puts among the most significant and relevant of those problems the problem of economic accountability and especially the need to improve the economic soundness of prices, the need to determine and distribute the benefit obtained among the individual participants, and the need for more straightforward regulation of other economic conditions in mutual cooperation. The principle that follows, which has been expressed by N. V. Bautina, has indubitable theoretical value in our view: "Assuming that the economic process is determined under socialism through achievement of benefit for the entire people, economic accountability as a system of economic relations, as a system of planned management of the economy, takes shape at the level of the socialist economy as a whole. What is advantageous to society must also be advantageous to the enterprise. The system of economic accountability, which serves the movement of the entire economy, has a corresponding structure, which must be linked to the various structural levels of the system of national economic planning. This will make it easier to make decisions involved in coordinating national economic plans."⁷ The legitimacy of the methodological approach used here in examining the problems of economic accountability in foreign economic relations of the CEMA countries from the standpoint of the entire state rather than from the standpoint of the individual enterprise or project covered by cooperation is supported by the very convincing argument that the socialist economy, as Lenin defined it, is a single cooperative of workers which functions on the basis of a single national economic plan, whose ultimate goal is to achieve the conditions for constant growth of the material prosperity of the working people.

In view of the aspect which has been chosen for examining the problem of prices, the work done by Yu. F. Kormnov, who has devoted much attention to the study of international economic accountability, is also of unquestionable interest. For instance, Yu. F. Kormnov presents, for example, a list he compiled of the principal factors determining the character of this economic category: "If the framework of economic accountability within the country is defined by the national economic plan, then the framework of international socialist economic accountability in the relations of the CEMA

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countries is defined by the coordinated national economic plans, joint plans for development of specific sectors and for cooperation within sectors, agreed general conditions and the agreements to implement them, and also the principles of foreign trade price determination.... In the foreign economic sphere economic accountability relies still more than within the country on effective functioning of the system of commodity-money relations."⁸

....
The Polish economist (Ye. Basyuk) also holds the opinion that it is advisable to make still broader use of economic accountability than up to now as a decisionmaking instrument at the central level and in economic organizations themselves, noting that the individual countries are using various forms of economic accountability. (Ye. Basyuk), moreover, stresses that "in all cases the prices at which purchases and sales take place on the domestic and foreign markets figure as parameters in economic accountability. As a consequence the level of foreign trade prices and their relation to domestic prices are exerting an ever growing impact on decisions the country makes concerning the volumes and structure of foreign trade."⁹

Use of economically sound standards of value measurement in the actual process of compiling and coordinating national economic plans should in our opinion be still more effective, since this will make it possible to determine in good time, before specific agreements take effect, the material interest all participants can be expected to have in cooperation and to avert possible refusals when the agreement is being carried out.

However, in spite of the aspiration of all the CEMA countries to realize as fully as possible--not only in exchange, but also in production--those large advantages which prices possess as an objective cost-accounting criterion in evaluating the results of foreign economic activity, the efforts made so far still have not borne full fruit in the context of the various forms of cooperation. This depends both directly on the form of cooperation, on those goals and tasks which it pursues, and also on the level of overall development of cost-accounting relations in the specific sphere of the process of reproduction where that form is operative. This means that a great deal of potential in this respect still lies in the individual forms of cooperation.

Where in our opinion the foreign trade price is realizing its capabilities as a cost-accounting character with comparatively greater completeness and consistency is in the sphere of foreign trade itself, for example, in planning budgetary efficiency at the national economic level, when total income from exports is calculated on the basis of proceeds from the sale of products exported to the foreign market at planned contract prices, and total costs to produce the products exported are measured in domestic wholesale prices. In the case of imports, costs are planned (and then actually computed) on the basis of expenditures to purchase the imported goods at foreign trade prices, and income is determined with respect to the value of those same commodities in domestic prices. In some countries, moreover, calculations of efficiency like these are also broken down to the level of industrial associations or even individual enterprises, that is, in the assessment of the economic results of foreign economic activity by industry

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the conditions of sale on the domestic and foreign markets are set directly opposite one another.

It is significant that the new recommendations on establishing contract prices for the current trading period (1976-1980) which provide that they will gradually and in a planned manner be brought closer to the world prices, which serves as their base, are also essentially oriented toward further reinforcement of the principles of economic accountability in relations among the CEMA countries in the process of foreign trade primarily through actual reestablishment of the disrupted economic relations between contract prices and the base level of world prices, which constitutes one of the principal requirements the price must meet as a cost-accounting category.

But in noting the consistent cost-accounting basis of the character of the development of foreign trade relations of the CEMA countries, we must at the same time emphasize that because foreign trade cooperation is mainly limited to the sphere of distribution, relations between foreign trade prices and the planning mechanism in this form of cooperation are almost entirely rounded off in the stage of exchange and hardly penetrate the sphere of production at all. As evidenced by the experience of cooperation of the CEMA countries for many years in the domain of foreign trade, this kind of concentration of interrelationships between the mechanism of planning activity and the price system primarily in the sphere of distribution has been altogether correct and has had an indubitable constructive effect by promoting the dynamic development of exchange, by improving the structure of foreign trade, and by making trade more efficient.

At the same time establishing interrelations between foreign trade prices and the planning mechanism exclusively through the sphere of distribution, fruitful and adequate as it is for the foreign trade form of cooperation, has clearly ceased to be in line with the tasks of development of its new forms, when the center of gravity in joint planning activity has decisively moved from the distribution sphere into the production sphere. Given this situation, the present system of foreign trade prices, which is fundamentally adapted to serve in the process of exchange among CEMA countries, has not yet been able to stimulate with the requisite effectiveness the development of forms of cooperation so intrinsically productive in their nature as the coordination of national economic plans, the planning of specialization and cooperation and the drafting of plans for building joint enterprises. That is why the task set by the Comprehensive Program of seeking out effective ways of ensuring organic combination of joint planning activity with broader use of commodity-money relations is especially relevant to the new forms of cooperation; in this specific case it means seeking out methods for fuller realization of the capabilities of the foreign trade price as a cost-accounting category linking together the physical and value aspects of planning in the stages of production and exchange as a unified whole.

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Even though, for example, definite success has been achieved in the domain of industrial specialization and cooperation among the CEMA countries, and though the share of mutual exchange of products covered by specialization shows a general tendency to increase, the rates of development of this process are still not altogether satisfactory to the socialist countries. We believe one of the reasons for this is the influence which the price factor has had on this process, if it has not been inhibitive, it certainly has not been stimulative enough. And it is capable of exerting that kind of influence, for example, by virtue of the fact that foreign trade prices, which have the capability of exerting a direct impact on formation of the structure of foreign trade and through it on proportions of the national economy of the individual countries, perform the role of one of those basic economic criteria which largely determine the development of the international socialist division of labor and are capable of stimulating not only the optimum directions, but also directions which are not fully justified in international industrial specialization and cooperation as well as in the development of other forms of economic cooperation.

Yu. F. Kormnov, the author of a number of publications on the problems of industrial specialization and cooperation of the CEMA countries, emphasizes: "The principal incentive for development of international industrial specialization and cooperation is the price at which the principle of mutual benefit for each of the partners in the specific variant of cooperation is implemented. The role of the price as an incentive depends largely on the extent to which prices make it possible for manufacturers (exporters) and consumers (importers) to realize the economic benefit of specialized production which has come about thanks to their joint actions and agreement. The best incentive for the consumer is a low price assuming that it conforms to a given quality and satisfies his other requirements. The best incentive for the producer is a price that guarantees him adequate production efficiency."¹⁰

In our opinion, the real possibility of such a favorable combination in which adequate material motivation is achieved for both producers and consumers of specialized products at comparatively low prices is explained primarily by the fact that the national cost of production of a particular product in a given country is usually lower than in other countries which do specialize in its manufacture. Here the principal cost reduction factors are production in large series and under the most favorable conditions, conditions which are conducive to reducing the necessary expenditures of labor and to raising the quality and technical level of products.

Since the generally accepted method of determining the efficiency of international specialization is to compare the national socially necessary expenditures of labor for the production of specific products with the estimate which they obtain on the foreign market, it is obvious that the principal criteria characterizing the conditions of social recognition of contract prices for specialized products must inevitably be the two economic indicators--domestic and foreign trade prices, or, more concretely, since world

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prices are the base of foreign trade (contract) prices, the domestic national prices of the individual CEMA countries and world prices.

Moreover, in the opinion of most specialists, it would be most advisable to use as the indicator of socially necessary national expenditures the wholesale prices of principal exporting countries, which ensure them reimbursement of production costs and not only a normal profit, but even a high profit (thanks to specialization). Since they are at the same time relatively lower than the wholesale prices of other producers, especially in importing countries, these prices can motivate consumers over the long term to obtain the specialized product by importing it. The only important thing is that all the information on prices be used as fully as possible in negotiations in the period when contracts on specialization are being prepared, i.e., when the fact of the discovery of low costs can actually promote optimization of the production of the specialized product and raise the efficiency of that production.

Use of a base reference point--world prices--in the process of setting prices on specialized products will be most effective in economic terms, it seems to us, mostly when the condition is met that the level of world prices be lower than the national socially necessary production costs of the CEMA countries for the respective commodities. Only in this case will exporters strive for technical improvement of production, attainment of world standards that apply to the quality of the product being exported, and reduction of costs to the average world level insofar as this is possible. But the difference between world prices and the production costs of the CEMA countries should remain within certain limits that make it possible to direct the motivation of exporters most effectively toward mobilization of internal potential. Otherwise too large a departure from world prices could, on the contrary, give rise to a passive reaction and the idea that the goal is unattainable, which means that this reference would be ineffective for all practical purposes. We would at the same time like to emphasize that in principle, if we leave aside those extremes, involvement of the world price factor in the process of price determination ordinarily promotes more active utilization of the advantages of the participation of the CEMA countries in the foreign economic relations of the world economy. This in turn would seem largely to explain why many economists of the CEMA countries--Yu. F. Shamray (USSR), (M. Yaroshin'ska) (Poland), (G. Brendel') (GDR) and others--consistently adhere to the point of view that it is the use of world prices as a base index that could promote successful development of specialization and cooperation.¹¹

Yu. S. Shirayev shares this point of view concerning the advisability and correctness of applying these two economic criteria to the determination of prices of specialized products stably oriented toward the market represented by mutual trade; he notes in his monograph: "Here the level of the contract price can be determined so as to take into account two parameters: the full production costs of the exporting country and the price of the world market (competitive price). The latter could be the higher limit of the contract

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price (if we are discussing, for example, deliveries of a bulk product, whose export yields a sizable benefit) or its lower limit (if we are talking about deliveries of a product in short supply, a product distinguished by high technical-and-economic parameters, and so on)."¹²

At the same time it is altogether permissible and there are cases when it is economically justified to establish prices solely on the basis of the level of socially necessary expenditures of labor characteristic of the commonwealth of CEMA countries in the practice of setting prices on specialized products. The advisability of such a procedure in price determination arises, first of all, when suitable value analogs do not exist in world trade. Moreover, as we know, the method of pricing based on production costs within the firm long ago became rather widespread in the practice of capitalistic enterprise. The experience of the CEMA countries in this regard has also yielded its first constructive results. Second, there is good reason to take as the base of prices of specialized products the socially necessary expenditures of its principal producers and exporters on the international market of the CEMA countries in all those other cases when world prices proved to be so out of line with the conditions of production and distribution within the commonwealth of socialist countries that given that situation they almost automatically lose their significance as an economically sound reference for price determination.

Because an additional benefit is obtained in cooperation based on industrial specialization, the problem of economically sound distribution of advantages among all the participants in the agreement, both producers and consumers, arises when the products of specialization are being priced. O. T. Bogomolov makes the following generalization in his discussion of the problem: "It is a peculiarity of economic incentives in the sphere of international cooperation that they presuppose not only an increase in the material benefit each country obtains, but also a fair distribution of those benefits among the countries. All other conditions being equal, the deeper and more intensive the international industrial specialization and cooperation, the greater will be the gain."¹³ Other economists also have been engaged in a study of this problem, and they have expressed various considerations concerning the possibilities of solving it. In particular, recommendations have been made for setting up special compensation funds, which, as conceived by the authors, should be built up from deductions paid in by countries obtaining the greatest benefit from specialization. Those countries whose gain is negligible or who have not obtained it at all in the context of the present system of prices, would be able to obtain money from this fund to reimburse their losses or replenish their incomes. As we see, the point of this variant is to achieve the desired equalization of the economic conditions of cooperation primarily by an accounting method, and as a consequence quite a few critical objections have been expressed against this proposal in the scholarly literature.¹⁴

Unquestionably preferable from the economic standpoint is another method of solving the problem--by applying special discounts to the prices of specialized products which the importer obtains because of a reduction of production

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costs achieved as the result of specialization. Here it is presupposed that the discount will be applied to the prices in effect before specialization, which were determined on general grounds. It is also obvious that the size of the discounts, which represent a pure gain for the importers, should be smaller than the total amount of benefit obtained; otherwise exporters will be deprived of the share of profit they deserve from participation in specialization. Moreover, in the interest of more economically sound distribution of gains between the exporter and importer, it is proposed that the size of the discounts gradually increase as the economic benefit grows. In our view this method will make it possible to distribute the total saving achieved through this form of cooperation more fairly and in accordance with the contribution of each country participating in an agreement on specialization.

The place and time for agreeing on prices also have fundamental importance to improvement of the character and determination of prices of produces produced through specialization; do the partners set the prices in the period when the agreement on specialization is being prepared, or do they do so only when commercial contracts concerning deliveries are being concluded. The point is that prices agreed on after contracts concerning specialization have been concluded are mainly set on the basis of the conditions of exchange, i.e., at the foreign trade level, whereas this product will be produced under the conditions of the country participating in the contract and will accordingly be evaluated in accordance with the principles of price determination effective in that country. As a consequence in most cases the two price levels (the foreign trade and domestic levels) do not actually interact in the process of joint planning activity, and therefore discrepancies between them can reach very formidable proportions. In such a situation, if the relation between domestic and foreign trade prices does not provide the necessary material incentive for one or other of the parties, regardless of the understanding that has been reached, that party will constantly be striving to alter the economic conditions of this specific variant of cooperation. In our opinion the probability of such a situation occurring can for all practical purposes be excluded almost entirely if the domestic value indicators of all the interested parties are included in the calculations of the economic justifications of the agreement's efficiency in good time, in the very stage of preparing the agreement on specialization; it is right at that point that the clear outlines of levels of foreign trade prices for all types of specialized products could be determined. This is very important, since the planned level of foreign trade prices agreed on in the planning stage will on the one hand make it possible to objectively determine the most promising participants in the agreement, while on the other it affords the possibility for exporters and importers to compare foreign trade prices with domestic conditions of production in order to assess the material incentive ever before the contract takes effect and also when there is a need to support their positions with economic arguments. It seems to us that as a result of this thorough and meaningful discussion of the entire set of problems related to the efficiency of each specific contract concerning specialization among the CEMA countries the necessary conditions could

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be created for either agreeing on a price which will become a real economic incentive or ultimately becoming convinced that the proposed variant of cooperation is not feasible. But the main thing in this procedure of price determination is that the stage of production rather than the sphere of distribution actually becomes the center of the planned setting of prices for the specialized product at which exchange will later take place through planned deliveries on the international market of the CEMA countries.

It seems to us that cooperation of the CEMA countries in the form of industrial cooperation is in even greater need than specialization for greater continuity of cost-accounting relations between production and distribution, since this direction is especially promising with respect to elaboration of the division of labor within sectors and industries within the limits of the commonwealth of the CEMA countries.

As an independent form of cooperation industrial cooperation is distinguished by characteristic peculiarities which in turn make price determination specific to a considerable degree. The principal peculiarity of the process of pricing products produced through industrial cooperation is in our view determined by the fact that it is one of the forms of cooperation that is most thoroughly productive, a form in which it is especially important that prices give an incentive for development of mutually advantageous cooperative arrangements among the CEMA countries in the very process of production.

Various kinds of specific requirements and stipulations related to the peculiarities of this form of cooperation arise when prices are being set on products produced through cooperative arrangements, as practice has shown.

First of all, it is not possible to obtain representative information on a regular basis about the relevant prices on the world capitalist market, which now serve as the initial base for determination of contract prices for products produced through cooperative arrangements. The point is that in world trade there exists no market for parts, assemblies and other components manufactured and exchanged on the basis of international industrial cooperation. These products either circulate within the firm or in a closed exchange between firms: as a rule these products are priced at a considerably lower level than for the same assemblies and parts sold as replacement parts to consumers of the finished products. To be sure, one can find the prices of mass-produced spare parts, but they have to be used with great caution, since in world practice the prices of spare parts are not uncommonly twice what they are valued as components of the finished product, if not more.

Second, by contrast with the character of cooperation in the field of industrial specialization, when the countries exchange products which from the technological standpoint have been completely finalized, in industrial cooperation the collaboration is concerned with the production and exchange of parts, components, circuits, and so on, which serve as elements of specific

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finished products. The price of the cooperatively produced product must therefore be determined not once, as is the case of the specialized product, but many times: for the product in its final form and for its individual parts, which necessitates that the necessary proportionality be maintained between the prices of the individual parts and the whole. This is a very complicated task, and it is no accident that we know of quite a few cases in practice when the sum total of prices of components offered by the various coproducers proved to be higher than the price of the finished product produced without cooperative arrangements. In the effort to agree on contract prices, then, it is especially important to make a careful comparison on a multilateral basis of each country's domestic value indicators so that when a lower foreign trade price is set than prevailed before cooperation there will be a guarantee of profit sufficient to ensure the material incentive of all participants in the agreement. Moreover, on behalf of economically more sound selection of different cooperative arrangements it is also necessary to compare costs and prices for domestic deliveries and for external deliveries through cooperation and to compare costs and prices of parts, units and assemblies when manufactured by the consumer-enterprise, other domestic enterprises or by supplier-enterprises in another CEMA country.

Third, and this follows as a direct result of the two first peculiarities, the specific nature of the pricing of cooperatively produced products makes it especially legitimate to pose the question of compulsory (either as a supplementary factor or as the initial factor) participation of the actual costs of the cooperating countries and enterprises in the determination of those prices. On the one hand this will make it possible to avoid many difficulties related to the lack of reliable world prices and to selection of the necessary analogs for parts, units and assemblies being priced, while on the other it affords the possibility of substantially speeding up and facilitating pricing calculations for the cooperatively produced products, which are distinguished by a very extensive products list, which require constant technical improvement and renewal of the assortment as labor productivity experiences a rapid growth, and so on. Making calculations of economic efficiency more objective will in turn be conducive to selection of the most optimum directions in development of cooperative arrangements among the CEMA countries.

Many economists, Yu. S. Shirayev and Yu. F. Kormnov in particular, share this point of view concerning the advisability of giving a broader and more consistent consideration to the domestic value criteria of the CEMA countries in devising the prices of cooperatively produced products. Yu. S. Shirayev states his position on this issue as follows: "The development of cooperative arrangements leads to the formation of 'micromarkets,' serving industrial collaboration of two or several partners. The prices of the products formed on these 'micromarkets' obviously cannot have any other objective basis than the costs of production recognized by the partners in this collaboration."¹⁵ Yu. F. Kormnov expresses himself with equal definiteness on this topic: "To open the road to industrial cooperation it is

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obviously better to make the transition to special contract prices guaranteeing mutual benefit to the cooperating countries and enterprises. The basis of such prices in our view might be minimum production costs of the partners in industrial cooperation, since the cooperative arrangements themselves are organized in order to ultimately reduce those costs."¹⁶ The real advantages of determining contract prices of cooperatively produced products in the stage of production and also so as to take into account the domestic costs of the CEMA countries are all the more obvious because the possibility is then created of obtaining the fullest and most objective idea of the efficiency of each variant of the cooperative arrangement at the time when plans are being drafted and to strengthen the cost-accounting relations between production and exchange and thus utilize to the maximum those advantages offered by industrial cooperation.

The need to shape planned value and physical proportions first in the stage of production and to realize them subsequently in the stage of exchange is especially typical of a form of cooperation like coordination of the national economic plans of the CEMA countries. This in turn presupposes the existence of full continuity in the system of cost-accounting relations prevailing between two such leading spheres in the process of reproduction as production and distribution.

During coordination the countries above all analyze and mutually adjust potential production capabilities of each partner from the standpoint of satisfying not only his own needs, but also the mutual needs of one another. Thus coordination covers the volume of mutual deliveries of products produced through specialization and industrial cooperation, the drafting of long-term special-purpose cooperative programs and plans of foreign trade traffic, the creation of joint enterprises and other lines of cooperation within the framework of the Coordinated Plan of Multilateral Integrative Measures. Since fulfillment of obligations which the countries assume as a result of coordinating national economic plans makes it necessary to allocate rather substantial material, financial, labor and other resources, there is an urgent need to make a series of analytical calculations concerning the economic justification of the efficiency of the measures arising out of coordination. In a number of cases these calculations should be done on a multilateral basis.

As in other forms of cooperation, the domestic and foreign trade prices must also be used in this case as the principal economic criteria governing the calculations. The Hungarian economist (K. Feldesh), who attributes great importance to the role of prices in the process of coordinating national economic plans, emphasizes: "The key issue in the functioning of contract prices is simultaneous conclusion of agreements on volumes of deliveries and prices in the process of coordination of plans and in the preparation of intergovernmental agreements. This would not only enhance the impact which prices have on the composition of trade, but would also make it possible to link more closely the movement of goods and money."¹⁷

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It is hard not to agree with this clearly stated position, which has great relevance to practice, since if preference is given primarily to the coordination of physical indicators of the plan, and there is not the requisite agreement on their valuations, this will inevitably have a restraining influence on the process of further strengthening of cost-accounting organization of the foreign economic cooperation of the CEMA countries. For instance, the "joining" of the use value of commodities with their value base, which in this case occurs only after plans have been coordinated, when the various measures are actually being carried out, can only expose the discrepancy between the interests of the individual participants, but the discrepancy can no longer be averted or even corrected to any important degree. Because the physical and value measurements of the movement of commodities are dissociated from one another, it also becomes difficult to select the most promising directions for the participation of the individual countries in the international socialist division of labor, and the role of the factor of material incentive in cooperation is weakened, since the countries cannot always determine accurately in good time the advantages of the different variants and agree among themselves on the most effective principles and methods of distributing the anticipated economic benefit. Thus using the price in the role of a "second-echelon" criterion in the process of coordinating national economic plans gives it the essential and predominant function of adjusting in terms of value mutual deliveries of commodities among the CEMA countries which have been basically agreed on in advance only in physical terms.

From our point of view this is an unjustifiably passive role for an economic category like the price, whose economic capabilities are such that it can manifest itself very vigorously as an instrument for international economic accountability, specifically in the process of coordinating the national economic plans of the CEMA countries. For instance, a direct comparison of physical indicators with domestic and foreign trade valuations in the process of coordinating national economic plans has the basic advantage of making it possible on the scale of the commonwealth of CEMA countries to reach mutual agreement on volumes of export potential and import requirements expressed in different value terms and quantitatively, which is indispensable to ensuring stable proportionality of the national economic development of the country; to balance the movement of physical and value flows in mutual trade among these countries; to avoid to a considerable degree unexpected and undesirable discrepancies between the imagined advantages of cooperation defined in planning and in coordination of plans on the basis of physical indicators (or at best to some extent in national prices) and the real results of exchange, now measured by applying foreign trade valuations.

Even now, for example, we can see as very symptomatic in this regard that recently much attention has been paid in the CEMA countries to the problem of fuller reflection of foreign economic relations in the planned balance of the national economy in general and to combining the finance-value balance and the material-physical balance in particular. In our view the unquestionable urgency of this problem results primarily from the fact that in the

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format adopted in the USSR for the national economic balance foreign economic relations are hardly represented even in material and physical terms, not to mention financial and value terms. Nor are they adequately reflected in the planned intersector balance, which makes it considerably harder to achieve balance in the distribution of the available resources (including the movement of commodities in the sphere of foreign economic cooperation) among various types of use, and also to link the material-physical aspect and the financial-value aspect of planning.

Striving to fill the gap, the relevant subdivisions of USSR Gosplan have now undertaken a search for possible ways of solving this problem. In particular, since achievement of balance between value and physical proportions in foreign trade necessitates possession of data on volumes of exports and imports by sectors and industries and for the most important commodity classifications in three sets of terms (in physical units, in domestic prices and in exchange rubles), the need has arisen to obtain some initial information by means of special calculations. For example, coefficients for conversion from exchange prices to domestic wholesale prices of the Soviet Union for foreign trade traffic as a whole and for groups of countries are being calculated on the basis of analytical materials of the Central Statistical Administration, which are based on bookkeeping reports of the USSR Ministry of Foreign Trade and the State Committee of the USSR Council of Ministers for Foreign Economic Relations; commodities are being regrouped and distributed according to the foreign trade classification, according to the commodity classification of the intersector balance, etc.¹⁸

We also know of work being done in this direction by certain Soviet economists. For instance, in the opinion of V. Belkin, doctor of economic sciences, and V. Ivanter, candidate of economic sciences, the foreign economic balance in the planned balance of the national economy should be represented on the one hand by the balance of foreign trade, which states in material and physical detail the respective section of the balance of the social product, and on the other by the balance of payments, which characterizes the value aspect of the balance between financial resources and material goods in the summary financial plan. V. Belkin and V. Ivanter also emphasize in this connection the need to make balance-sheet calculations of a financial-value nature in value indicators at two levels: "Inclusion of the balance of payments in the balance of the national economy means that it must be worked out not only in exchange prices, but also in domestic prices at which imported products are sold within the country and at which export products are obtained by foreign trade organizations. Thus the balance of foreign trade traffic will be computed not only in foreign exchange, but also in domestic prices. The latter is very important, since the balance of foreign trade in domestic prices characterizes the growth or reduction of the state's financial resources. As a result the balance of payments is organically linked to the entire system of financial balances."¹⁹

Soviet experience, and indeed the experience of other CEMA countries in pursuing work of this kind, is also interesting in our view because it could

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unquestionably be used to advantage in coordinating national economic plans of the CEMA countries. The possibility of a parallel assessment of measures being coordinated in domestic and foreign trade prices will in our opinion have great importance to coordination of national economic plans, mainly from the standpoint that it will make it possible to eliminate or reduce many of the difficulties which are inevitable when criteria in different scales are applied in calculating economic efficiency--in some cases at the national level and on the basis of domestic prices, and in others so as to take into account only foreign trade value indicators, and so on. Moreover, this should essentially invigorate the planned competition of national costs of the individual countries, stimulating a general rise in the efficiency of cooperation.

And finally, in connection with discussion of the questions of broader participation of value criteria in the process of coordinating the national economic plans of the CEMA countries, we obviously must not overlook a factor so very crucial from the methodological standpoint as the need for the countries to agree on the level of foreign trade prices which are to be made the basis of planning calculations, since this largely determines the character of the assessment of the efficiency of performing the economic tasks agreed on in the process of coordinating national economic plans. However, according to the procedure now established, prices are determined only when trade contracts concluded on the basis of long-term trade agreements are signed. Additional economic work is naturally required to forecast foreign trade prices, but it will pay 100-fold return when the plans are being carried out, since it will afford the possibility of substantially increasing the effectiveness of the economic results of coordination.

These aspects of more active use of prices in the process of coordinating national economic plans, one can expect, will open up broad opportunities even in this initial stage of the planning activity of the CEMA countries for laying those foundations of mutually advantageous cooperation which can then be successfully implemented in its various forms. The performance of many of the major tasks set forth in the Comprehensive Program and also outlined over the longer range depends to a considerable degree on the economic soundness and rationality with which the physical and value aspects of planning are interconnected in the stage of coordination of plans and on the degree to which the cost-accounting capabilities of the price as a planned value category are "mobilized."

For example, the drafting of DTsPS [long-range special-purpose cooperative programs] of the CEMA countries has confronted pricing with the task of actively including in this process, along with the other value instruments, a system of prices whose purpose it is to promote organic linkage between the physical and value estimates over the entire cycle of cooperation, beginning with the stage of planning and ending with full realization of the product.

It seems to us advisable to take into account the specific features of cooperation in the framework of the DTsPS, which are multisector in their configuration, long-range in their time frame, planned in their character and

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collective (sovmestnoye) in terms of the sources of resources to carry them out, in building up the system of prices which will serve them, the following basic conditions of price determination being taken as points of departure.

First, in view of the long-range nature of this form of cooperation, for which domestic conditions of production and distribution are constantly operative factors, in our view it is particularly legitimate to use the multifactor approach in the process of price determination and unfailingly to use more than one base criterion: world prices as the base, wholesale prices (of exporters and importers), and the previous level of contract prices. Mutual comparison of the criteria at the national, regional and world levels, one can expect, will make it possible to set prices on an objective cost-accounting basis which will ensure the greatest benefit from cooperation.

Second, the international character of the cooperation of several countries within the framework of a DTsPs makes it a necessity by definition that contract prices be agreed on through a multilateral rather than a bilateral procedure. The multilateral approach in price determination, which ensures simultaneous and joint participation of all interested countries in determining the level of contract prices, is altogether in line with the principle of carrying out these programs through overall efforts and by joining resources which the countries possess, which was officially set down by the 30th CEMA Session. If valuations are multilateral and comprehensive in all stages of the economic cycle (in planning, in determining the value of the shares of participation of the individual countries in capital investments, in agreeing on terms of payment for deliveries of raw materials and supplies, expenditures of live labor and other elements of production costs, and in setting the price of the finished product) make it possible to invigorate substantially the role of the price factor in carrying out these programs. It is also very important that adoption of a multilateral procedure for agreeing on contract prices by no means contradicts the present practice of price determination, of which it is a logical extension and development.

Third, since the DTsPS is one of the specific forms of joint planning activity of the CEMA countries covering a lengthy period of time, it is obvious that the value criteria adopted must also be appropriate to the tasks not only of current planning, but also of long-range planning. And this means, as shown by experience in economic work of this kind, that stable value criteria and also forecast value estimates must be used in this case.

The present adoption of a sliding base of prices, which allows for the possibility of practically annual adjustment for a broad range of commodities, explains to a certain degree the accent being put on the need to apply stable yardsticks of value in long-range calculations. Without denying the advisability of this tactical solution in a particular economic situation, we at the same time consider it fundamentally necessary to emphasize once again the importance of using stable value indicators in long-range planning.

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Moreover, so that disagreements do not arise in what we mean by stability, we should spell out that in our conception prices are stable when all the participants in cooperation agree in advance on the specific intervals for revision (differentiated by commodities) and forecast the approximate proportions of the changes in the upcoming planning period.

As for the application of forecast data, it is advisable to that end that not only the contract prices, but also world and wholesale prices be forecast. There is no question that this involves large additional efforts, but it will in return afford a possibility of considerably increasing the reliability and quality of long-range planning thanks to the forecast estimates which can be referred to.

Fourth, on the assumption that cooperation within the framework of a DTsPS is supposed to promote the most economical performance of the tasks set by the programs, the character of price determination should obviously be aimed at establishing relations among all partners in cooperation which are truly appropriate to economic accountability. Given those conditions, it seems to us, the principles of economic accountability require that prices perform two basic functions: 1) ensure objective measurement of costs at all levels; 2) help every country to derive benefit from participation in cooperation.

Implementation of these principles opens up broad opportunities for the setting of mutually advantageous prices that possess the attributes of integrative value criteria, which are acutely necessary to effective performance of the tasks contained in the DTsPS. Moreover, if with respect to certain conditions of price determination proposed for DTsPS this procedure will differ from the present practice of setting contract prices (more extensive use of regional value estimates, multilateral agreement on contract prices, and use of forecast indicators), in our view this not only will not become an obstacle to its adoption, but will on the contrary serve as an example for further improvement of the methods of price determination to fit the context of other forms of cooperation as well.

Quite a few problems also have to be solved in the field of planning the production and economic activity of MKhO [international economic organizations], MEO [intergovernmental economic organizations] and other joint enterprises and organizations of the CEMA countries in connection with the need to create an economically sound method of pricing the products they produce.

As we know, the experience acquired in this field by the CEMA countries is still small, since there are not many examples of setting up joint enterprises. At present the initial principles and economic conditions of the business activity of this type of organization are mainly regulated by the Model Regulations on Financing and Settlement of International Organizations of the CEMA Member Countries, which were drafted by the Standing CEMA Commission for Monetary and Financial Affairs and approved by the CEMA Executive Committee in 1973.

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These regulations provide for creation of intergovernmental economic organizations, international economic associations, and international economic organizations of two types: first, organizations operating on the principles of economic accountability, and second, budget-financed economic organizations. But since the price can fully manifest itself as an active economic category only when cooperation is organized on the basis of economic accountability, it is obvious that principal attention should in this case be concentrated on precisely this aspect of the problem.

In our view the value of the price factor to the financial results of profit-loss MKhO and other joint enterprises and organizations of the CEMA countries is particularly felt in two stages: first, when the production of individual articles is being costed; second, when the price of the finished product is being determined for the various directions of its sale.

For instance, when the cost sheet is filled out under the heading "Costs of Raw Materials, Supplies and Semifinished Products" the general principle is that material and technical supply of the MKhO is by definition the responsibility of the country where it is located and the other participating countries. Moreover, the raw materials and supplies delivered by organizations of the country where the MKhO is located are paid for in the national currency at prices applicable in that country to its state organizations. Commodity deliveries from other countries participating in the MKhO are paid for in transfer rubles and at prices set in conformity with the principles of price determination in effect in mutual trade of the CEMA countries. Should raw materials and supplies be purchased from third countries, the calculations are made in the currency and at the prices generally prevailing in relations with these trading partners. Consequently, in the official calculation of costs of raw materials and supplies the Regulations recommend using the method of computing expenses at prices that vary as a function of the source of the commodities: at national domestic prices for products of the countries where the MKhO is located; at contract prices for goods purchased from other participating countries; and in current world prices for goods imported from the capitalist countries.

In our view this method of calculating the costs of raw materials and supplies has both its good sides and bad sides. For example, on the one hand there is no question that one must apparently agree that the principle of estimating costs of raw materials in the prices of the actual purchase is objective. But on the other hand if we look at the problem from the angle that later it is quite possible that proportions will be unstable between the various sources of raw materials and supplies, the latter being characterized by an unequal price level, the production costs of the product of the MKhO may experience constant fluctuations, and the apparently objective method of applying actual prices appears on the contrary to be even an obstacle to the planned management of economic activity on the principles of economic accountability.

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The factor of prices does not have such a direct impact when the official calculation is made of other elements of the production cost (wages and supplements to wages, depreciation and administrative expenses), but all these elements of the production cost figure in turn as components of the price of the finished product to be produced by the MKhO and other joint enterprises and therefore have a bearing on its determination.

As experience has shown, an especially large number of disagreements have resulted from the official calculation of expenditures for wages and supplements to wages. The opinions expressed are so heterogeneous that even without going far into a detailed discussion we can easily spot the very substantial methodological discrepancies between them, in particular in the procedures they propose for adding the value of community consumption funds to expenditures for wages and for selection of coefficients for conversion from one currency to another. The methods proposed for including administrative expenses in the production cost are also very imperfect.

The specialists of the CEMA countries have still not arrived at unanimity concerning the procedure for agreeing on fob deliveries, i.e., for determining the conditions regulating responsibility for shipment and compensation of the various related costs in the price of the finished product.

The discussion is still continuing concerning the principles and methods of calculating the profitability to be included in the prices of the products of joint enterprises.²⁰

At the same time a basic solution has been found to such an important methodological question as the application of uniform prices to all the participating countries for the products of the MKhO which they acquire within the amounts envisaged by the plan. This makes it possible to guarantee a unity of interest and mutual advantage for all partners in cooperation. Prices for the same products may have a different level for other purchasers.

Yet in spite of the uniformity of prices, as shown by the experience to date, the individual countries are deriving unequal benefit from setting up joint enterprises, which in our opinion is altogether sound and justified from an economic standpoint. This situation has been very aptly described, for example, by the Bulgarian economist B. Atanasov: "Joint production by the socialist countries cannot be equally advantageous to all, but it should be mutually advantageous in any case. The advantage will be greater for some countries and smaller for others; it will be expressed in attainment of precisely defined goals and results for each of them, for example, in the supply of the scarce product, in utilization of unemployed manpower, in reduction of the strain because of the shortage of funds for capital investments, in the receipt of rent income, in the economic development of some region, etc. It is fundamentally important in this case not that no one seek an equal economic benefit from joint production, but that unequal benefits from this production are now allowed to occur because of the application of unequal terms of sale of commodities whereby some of the participating countries gain and others lose."²¹

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This is also a good place to refer to the opinion of the Czech economist V. Valek on this question; he has noted in one of his writings that "the principal incentive for setting up international joint enterprises must in future be above all their economic efficiency within the framework of the relevant process of reproduction, that economic efficiency to be based on a precise economic calculation and must convincingly demonstrate the advantages of this form of mutual cooperation. Only on that basis can one undertake to solve the problems directly involved in setting up such enterprises."²²

In conclusion it obviously remains only to add that successes in raising the efficiency and mutual advantageous nature of cooperation in the form of the joint enterprises of the CEMA countries are inseparably bound up with success in further adoption of cost-accounting relations in this field and, in particular, broader use for this purpose of such an effective economic lever as the price.

It thus follows from what we have said that the needs for development of new forms of cooperation organically related to joint planning activity in the field of production are beginning to noticeably outgrow the methodological framework of the present price system, which was primarily designed to serve foreign trade proper. As a consequence, obviously, it is becoming necessary even now to appropriately transform the methods of price determination so as to take into account a number of specific requirements imposed on the character of price determination by the tasks of the integrative stage of cooperation. Among the most important of these requirements we believe we should mention first those such as the need for more active use of prices as a planning instrument in the very stage of coordination and compilation of plans; agreement on methods of distributing the economic benefit which will motivate all participating countries to develop integrative lines of cooperation; and assurance of conditions for taking domestic production costs of the CEMA countries more fully into account in the process of price determination.

It is significant that even under the conditions of the prevailing practice of price determination there have been certain favorable prerequisites and other objective reasons for setting up a system of prices which partially satisfy these requirements:

- i. the constant growth of the volume of production in the context of the new forms of cooperation, which has steadily enhanced its role in development of foreign economic relations among the CEMA countries;
- ii. the practical impossibility of using world prices in a number of cases as the base for contract prices in the first place because reliable information was lacking and second because the structure of price relations in the system of prices of world trade, which experienced intense deformation in recent years, has still not become stable;

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iii. the unsatisfactoriness of a certain passivity on the part of the present system of foreign trade prices with respect to development of the processes of industrial specialization and cooperation, which inevitably strengthens the aspiration of the countries to set up a more active price regime;

iv. the tendency noted in recent years for contract prices to come closer to wholesale prices for many types of machines and equipment produced on the basis of specialization and industrial cooperation, as one of the manifestations of the real need for bringing domestic value criteria into the process of price determination in the context of the new forms of cooperation.

Development of the methodological foundations of price determination for the new planning and production forms of cooperation is in our opinion a most important feature of the present stage of improvement of the mechanism of price determination, whose responsibility it is to serve the development of the foreign economic relations of the CEMA countries in the period of socialist economic integration.

FOOTNOTES

1. Zhukov, V. N., Ol'sevich, Yu. Ya., "Teoreticheskiye i metodologicheskiye problemy sovershenstvovaniya tsenoobrazovaniya na rynke SEV," Moscow, Nauka, 1969, p 8.
2. Marx, K., and Engels, F., "Sochineniya," Vol 23, p 134.
3. Ibid., p 73.
4. Shirayev, Yu. S., "Mezhdunarodnoye sotsialisticheskoye razdeleniye truda" [The International Socialist Division of Labor], Moscow, Nauka, 1977, p 24.
5. Mayzenberg, L. I., "Problemy tsenoobrazovaniya v razvitom sotsialisticheskoy obshchestve" [Problems of Price Determination in Advanced Socialist Society], Moscow, Ekonomika, 1976, p 11.
6. This problem was stated for the first time, as we know, back in the Comprehensive Program ("Kompleksnaya programma ...", Moscow, Politizdat, 1971, pp 8, 18-19 and 20).
7. IZVESTIYA AKADEMII NAUK SSSR. SERIYA EKONOMICHESKAYA, No 5, 1974, p 9.
8. Kormnov, Yu. F., "Spetsializatsiya i kooperatsiya proizvodstva stran SEV" [Industrial Specialization and Cooperation of the CEMA Countries], Moscow, Ekonomika, 1972, p 191.

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9. GOSPODARKA PLANOWA, No 11, 1974, p 733.
10. Kormnov, Yu. F., "Spetsializatsiya i kooperatsiya proizvodstva stran SEV," p 203.
11. See, for example: VOPROSY EKONOMIKI, No 8, 1970, p 90; "Materialy mezhdunarodnoy nauchnoy konferentsii 'Teoreticheskiye problemy mirovogo sotsialisticheskogo rynka'" [Proceedings of an International Scientific Conference on the Topic "Theoretical Problems of the World Socialist Market"], Part 2, Moscow, CEMA, 1975, pp 200-201, 209 and 211.
12. Shirayev, Yu. S., "Ekonomicheskiy mekhanizm sotsialisticheskoy integratsii (ocherk teorii)" [The Economic Mechanism of Socialist Integration (Outlines of a Theory)], Moscow, Ekonomika, 1973, p 110.
13. Bogomolov, O. T., "Teoriya i metodologiya mezhdunarodnogo sotsialisticheskogo razdeleniya truda," Moscow, Mysl', 1967, pp 208-209.
14. For example, it has been subjected to very substantial criticism by Yu. F. Kormnov in his book "Spetsializatsiya i kooperatsiya proizvodstva stran SEV," pp 211-215.
15. Shirayev, Yu. S., "Ekonomicheskiy mekhanizm sotsialisticheskoy integratsii (ocherk teorii)," p 110.
16. Kormnov, Yu. F., "Spetsializatsiya i kooperatsiya proizvodstva stran SEV," p 210.
17. KOZGAZDASAGI SZEMLE, No 5, 1974, p 555.
18. For more detail on the character of the shaping of foreign trade indicators for the intersector balance, see: Voyeykova, T., Smirnov, A., "Formation of the Indicators of the Net Product, Foreign Trade and Paid Services in the Planned Intersector Balance," PLANOVYE KHOZYAYSTVO, No 8, 1976.
19. VOPROSY EKONOMIKI, No 4, 1977, p 68.
20. In our opinion, the reason for the failure to solve these problems is not only their complexity, but also in part the fact that the documents in effect at the present time which govern the financial activity and mechanism of settlement of the MKhO have the force of recommendations, which leaves a great deal of room for individualization of decision concerning the specific terms of cooperation.
21. EKONOMICHESKA MIS'L, No 3, 1975, p 13.
22. PLANOVANE HOSPODARSTVI, No 12, 1973, p 52.

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Chapter 5. The Problem of the Relation Between Domestic and Foreign Trade Prices

Experience in the planned price determination of the CEMA countries provides evidence that there is great practical and theoretical importance to the problem of improving the means and methods of strengthening the economic relationship between domestic and foreign trade prices because of the task of further increasing the efficiency of foreign economic activity. Moreover, since the character of the relations that prevail between these types of prices in turn depends to a considerable degree on the mechanism adopted within the country for managing foreign economic activity, certain countries use this lever for economic accountability in order to improve interaction between the national economy and the sphere of distribution on the external market, at that level and taking into account those conditions which fundamentally correspond to that mechanism. It is also important that thanks to the establishment of a relationship between domestic prices and foreign trade prices that is economically sound from the standpoint of the individual CEMA countries favorable conditions are also coming about for performing the tasks of integrative cooperation.

The Comprehensive Program for Socialist Economic Integration, obviously taking the position that the shaping of the optimum relationship between domestic and foreign trade prices is mainly an internal affair of the states, stated matters this way, as is well known: "In establishing economically sound rates of exchange or coefficients for conversions of national currencies, the countries will settle matters of the relationship between domestic wholesale prices and foreign trade prices according to their capabilities and conditions."¹ It is important to emphasize in this connection that taking into account the paramount role of the internal jurisdiction of the state in the approach to solving this problem, the Comprehensive Program at the same time noted its close interdependence with the solving an expressly international problem like improving the monetary-financial mechanism for cooperation of the CEMA countries. In addition, the character of the relationship between domestic and foreign trade prices has a large impact on development of commodity-exchange transactions between the CEMA countries and on development of various forms of production-technical cooperation.

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The inevitability that there be economic relations between values and prices of commodities prevailing within the national economy, on the one hand, and the valuation of those same commodities when they are included in international exchange was indeed demonstrated by K. Marx. The original value formation is the individual value of the production of the commodities, and it is defined by the individual costs of individual producers in manufacturing them. But after these commodities enter the national market to be sold the individual valuations altogether drop away, and the prices are set in accordance with that country's socially necessary expenditures of labor. If these same commodities then enter the international or regional market, they will again be compelled to change what is now their "national uniforms" and will be evaluated on the basis of worldwide (or regional) conditions of production and distribution. This in Marx' scheme is the process of step-by-step development of value from individual value--through national value--to international (or regional) value; in all stages of this process there will always be an objective possibility, when necessary, to make a mutual comparison of the prices of any value level, which in our view convincingly confirms the existence of organic continuity between the different stages of price determination. This process, which was discovered by K. Marx in analyzing the capitalist economic system, characterized even by that time by a rather high degree of internationalization, is also fully inherent in the foreign economic relations in the domain of production and exchange that exist between socialist countries under present conditions, since these relationships are also distinguished by a high level of intensity and concentration.

Thus from the theoretical standpoint the problem of the interdependence between domestic and foreign trade prices is essentially the problem of the relation of the national value to the international value. The proper conception of that relation is in our opinion that domestic prices, whose level is determined primarily by the national value, should only within certain expedient limits take into account the movement of the international value, remaining fundamentally independent of changes in foreign trade prices. More accurately, domestic prices may correspond to foreign trade prices only insofar as national conditions of production and distribution approximate the conditions of production and distribution regulating the movement of foreign trade prices. Otherwise the proportions of world prices may be automatically carried over to the domestic economy, which does not always yield constructive results by any means, since the character of relations that take shape between the national and international values has a direct influence on the efficiency of foreign trade activity.

For example, an incentive to export a commodity rather than to sell it on the domestic market will be all the greater the lower is the national value of that commodity as compared to the international value, and conversely, the motivation to import will increase depending on the degree by which the national value exceeds the international value. Accordingly, the motivation to export sharply drops if the national value exceeds the international value, and the motivation to import drops when the national value is lower

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than the international value. When the levels of national and international value are close to one another, the natural result is for the effectiveness of exports and imports to be approximately equal to the income from sales within the country. Consequently, in comparing the socially necessary expenditures of labor in production of commodities in the international and national context, the countries can objectively evaluate the consequences of their participation in foreign economic relations and determine their incentive to develop them in the future.

The problem of establishing the optimum relationship between domestic and foreign trade prices is a very relevant one for the European socialist countries.

First of all, this problem, which arises at the point of contact between the national economy and the world economy, is having a great impact on development of economic relations between the domestic and external markets. In particular, the experience of certain socialist countries demonstrates that the character of the relations that prevail between the prices that serve the domestic and external spheres of the economy largely determines the conditions that make it possible to shape effective relations in a sound and objective way between the national economy of the individual socialist countries and the sphere of distribution of commodities on the external market and to stimulate progressive directions of international socialist division of labor.

Second, broad opportunities for the further spread of the principles of economic accountability to the domain of foreign economic cooperation depend on solving this problem. For example, with respect to exports, this pertains in our view primarily to the possibilities of improving the methods of cost-accounting stimulation of industry to raise quality, to improve the assortment and product mix, to reduce production costs and to increase the competitiveness of exports, while on the import side it has to do with enhancing the responsibility and stewardly attitude toward purchases on the foreign market and increasing the motivation to speed up technical progress and to satisfy the needs of the people more fully.

In our view this is the principal explanation why there is so much interest in the theoretical conception of this problem, which has been especially typical of a number of countries in the period of drafting programs for improvement of guidance and management of the economy in the latter half of the sixties. In those years this problem was discussed very widely in the economics literature of the CEMA countries, which seems to us to fully justify a slight digression concerning the history of the issue.

For instance, an interesting discussion of the character of relations between domestic and foreign trade prices developed, for example, in the economics literature of Bulgaria. The statements by B. Ilev, A. Zakhariev, V. Ivanova, (A. Yordanov), A. Lyutov, S. Kodinov, S. Stoilov, (S. Khodzhiyev), etc., attracted particular attention.

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But first of all, obviously, it is best to refer to the official position concerning this issue, which was set down in the decisions of the July (1968) Plenum of the BCP Central Committee, which contained the passage that "the new system of economic management pursues the goal of fuller reflection of socially necessary expenditures of labor for production in factory-plant prices. An important direction for the formation and change of price levels and relations is also their approximation to the level and relations of foreign trade prices and to the prices of international markets with which the country's foreign trade is realistically and traditionally related."²

The direction for improvement of price determination initiated by the plenum was later studied and worked on in all its aspects by Bulgarian economic scientists. For example, the problem of the relationship between domestic and foreign trade prices has been very thoroughly covered in an article of B. Iliev.³ His initial theoretical position is that a direct economic dependence must exist between domestic and foreign trade prices. Then, in his opinion, through its policy governing establishment of prices on exports and imports the state could regulate the degree of impact of foreign trade prices on domestic prices, reducing or expanding that impact, maintaining it within those limits most advantageous to the specific economic situation. In B. Iliev's view it is possible to reduce the constructive effect of the world market and of its economic criteria all the way to zero by establishing prices on imports and exports according to the principle of equalization to the system of domestic value relations.

B. Iliev examines in particular detail the question of the impact which foreign trade prices have on the prices of imports, believing as he does that it is unsound to determine prices of imported commodities on the basis of the prices of analogous goods produced within the country, since adoption of this method means that the prices are set without taking into account international socially necessary expenditures of labor, but are based solely on national socially necessary expenditures of labor of the given country. Since labor productivity within the country does not ordinarily coincide with that on an international scale, the prices of these goods inevitably differ from their international value, and prices gradually lose their progressive significance. Moreover, because there is as a rule a difference, one that varies from product to product, between the actual prices of purchases on the external market and domestic prices on analogous goods, it becomes necessary to apply a system of markups which are a budget revenue. In Bulgaria the proportion of such markups was at one time highly differentiated--from zero to 300 percent of the domestic wholesale prices of the goods. As a result of this differentiation of the tax the foreign trade prices in many cases lost all relation to the domestic prices. Under those conditions production enterprises and associations, which found themselves isolated from the impact of the external market as a result of this method of setting prices on imports, were to a considerable extent deprived of the possibility of taking into account the progressive level and relations in world prices, which ultimately led to slower rates of the country's technical development.

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B. Ilev also critically assessed the practice of that time of paying for the export products of domestic enterprises at the prices established on the goods for domestic circulation, since in this case, in his opinion, sufficient objectivity in calculation of the efficiency of exchange was not provided for.

We have expounded B. Ilev's position in such detail because it sets forth most consistently and completely a conception that confirms the advisability of establishing a direct economic interrelation between domestic and foreign trade prices. In the writings of other Bulgarian economists essentially the same basic principles are advocated, though with certain modifications. For instance, V. Ivanova has written in one of her articles in which she argues the objective necessity of achieving an economic interrelationship between domestic and foreign trade prices: "National production costs are and can be a reference point which on the basis of a comparison with foreign trade prices show what it is best for the countries to produce and what should not be produced and exported, and in what volumes particular products should be produced and exported. This makes it possible to determine the directions of participation in the international socialist division of labor."⁴

Finally, by way of a kind of overall resume of the positions of Bulgarian economists on this question, we can cite the following words of (A. Lyutov): "Consequently, as the money expression of international value, international prices have the importance of a social value with respect to the national (individual) value and have a shaping effect on domestic prices. It is also obvious that the international market and international prices, especially under present-day conditions of intensified internationalization of the productive forces, are having an ever greater impact on the values and prices of national products both on the export side and also on the import side."⁵

In Hungary the mechanism that has been operating for nearly 10 years now to relate domestic prices to foreign trade prices has been vigorously discussed both before its adoption and also in the period it has been in operation. Many government figures and economists have taken part in the discussions: (B. Chikosh-Nad', Ya. Sita, B. Shuek, I. Frishsh, Sh. Tsaytler, T. Kishsh, Sh. Aush, F. Barta), etc. Principal attention was paid during the discussions to examination of the shortcomings of the previous system of mutual relations between production enterprises and foreign trade organizations, when production enterprises did not feel the value estimates of the foreign market in terms of their own financial results.

As noted by (Sh. Aush), when the domestic market is isolated from the external market, which was the case up until 1968, the process of the formation of value was greatly restricted, which left its imprint both on domestic and also foreign trade prices, which were set separately from one another. The entities which concluded agreements on prices primarily took into account the sum total of the prices of all commodity trade for purposes of achieving internal balance, and they neglected to compare domestic costs (domestic

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prices) to sales opportunities outside the country (foreign trade prices). Nor was there any straightforward definition of the economic limits of domestic and foreign trade prices within which their levels might deviate without threatening reduced production efficiency and profitability of sales.⁶

In Hungary, meanwhile, things were by no means going well at that time in this respect. For instance, the data of special calculations reveal that in the mid-sixties 61 percent of exports to the capitalist countries and 45 percent to the socialist countries originated in sectors whose productivity was below the national average. In precisely the same way only 30 percent of the imports from the capitalist countries and 29 percent of the imports from the socialist countries were products in whose production the advantages of the division of labor were actually utilized, since they could have been produced in the country only at a lower labor productivity.⁷

Nor did price relations properly take into account changes in supply and demand for particular commodities. For example, contract prices for raw materials and agricultural products which were scarce on the world socialist market exceeded the level of world prices to a disproportionately smaller degree than the prices of machines and equipment, whose supply in trade among the socialist countries was greater than the effect of demand.

"The domestic price system has reimbursed those high costs which did not win recognition on the external market," (Sh. Tsaytler) emphasized. In his opinion, this is one of the principal shortcomings related to the isolation of domestic prices from foreign trade prices.⁸ Describing the advantages of establishing an interrelation between domestic and foreign trade prices, (I. Frishsh), member of the academy, has written: "In this way international prices manifest their influence on the domestic market, and as a consequence one can expect favorable results in our overall and mainly our technical development."⁹ The general opinion of the overwhelming majority of Hungarian economists on this question has been expressed very precisely by (Ya. Sita): "It is in our interest to increase the influence of the impulses of the external market on domestic production and consumption and on the composition of exports and imports, because this is conducive to more advantageous inclusion of Hungarian economic life in the circulatory system of the world market, to higher economic efficiency and to technical development. It is an urgent task to speed up that process."¹⁰

As a result of the lengthy discussions Hungarian economists came to the conclusion that the solution to all these problems laid largely in a system of foreign trade and domestic prices directly related to one another through the rate of exchange. Moreover, they noted the need for enterprises to be granted the right to determine the volume and directions of their exports and imports independently, though within the limits of government regulation, provided that preference be given to those contracts which guarantee the long-range character of transactions and the stability of prices.

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This was the premise for restructuring the mechanism of relations between industry and foreign trade in Hungary in the late sixties. In the new context the efficiency of export-import transactions began to be manifested from the producer's standpoint mainly through the system of economically interrelated domestic and foreign trade prices, which served as an intermediary. This changed the attitude toward foreign trade prices on the part of producers of products for export: they began to be motivated on their own to attain higher prices for their exports and to obtain imports at lower prices. Consideration was given in this connection to all the complexity of achieving a synchronous relationship between domestic and foreign trade prices. The decision was therefore made to temporarily adopt a system of foreign exchange coefficients and noncommercial calculations, as well as government export subsidies. These measures were adopted in order to avert excessive strain in the economy which would have been inevitable if the transition to using the same scale for evaluating domestic and foreign trade transactions was accomplished all at once.

Consequently, it was a question of creating the conditions necessary to forming the prices of the domestic market at least equally under the influence of the conjuncture of the national and world markets, since then, in the opinion of Hungarian economists, producers of export products, under the simultaneous two-sided impact of the prices of goods circulating both on the domestic and the internal markets, would be compelled to bring the levels of their production costs into line with sales possibilities so as to ensure that structure of production and trade which could counteract that influence. In that situation consumers of imported goods would in turn develop a strong interest in minimizing expenditures for imports.

The problem of the economic relationship between domestic and foreign trade prices has also attracted the attention of many economists and government figures in Poland. The articles of (Ye. Baryshevich, A. Bodnar, P. Bozhik, S. Yendrikhovskiy, Yu. Payestka, S. Polyachek, Yu. Soldachuk, S. Stopin'skiy), W. Szyber and others amply reflect the basic position Polish economists have taken on this issue.

The essence of their position can be briefly set forth as follows: the system of domestic prices should be so structured that the sphere of production is not detached from the sales sector either on the domestic or external markets. This requirement is becoming increasingly imperative because the relations between the economies of the CEMA countries with the external market are constantly becoming more elaborate, since foreign trade is one of the basic forms of economic cooperation among them. Prices can and should play an important role in this process, facilitate selection of the most rational directions for development of foreign economic relations of the CEMA countries, and promote improvement of the pattern of their exports and imports. At the same time they will be able to perform their equally important function of stimulating a rise in the technical level of production.

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In the opinion of the Polish economists, if the practice of price determination is to perform all these tasks, it must develop in a situation where an organic relationship exists between domestic and foreign trade prices. For instance, (P. Bozhik) notes: "Instead of three categories of prices independent of one another, namely domestic prices in the exporting country, exchange prices and domestic prices in the importing country, there must be a direct linkage of these three categories of prices."¹¹ Then factory-plant prices will no longer be the sole criterion of production efficiency for enterprises manufacturing products for export and also for consumers of imported products. Producers and consumers will base their decisions on the results of a comparison of foreign trade prices with domestic prices. This, in the opinion of the Polish economists, will create far better opportunities for a timely and objective reaction on the part of production enterprises to changes in foreign trade prices than when the systems of price determination were autonomous. For instance, consumers of imported goods will have an opportunity to compare outlays for imports with the cost of an analogous domestically produced product and make a sound choice of the supply arrangement that is economically more efficient. Exporters, informed about the prices for their products, will be able to reorganize the pattern of exports and imports in good time and determine more accurately the sales prospects and ultimate financial result of foreign economic activity.

Much attention has accordingly been paid in Poland to developing different variants of the determination of financial results from the standpoint of taking into account the influence each enterprise feels in its economy from both domestic and foreign trade prices and from the standpoint of a comparison of the profitability of export transactions with conditions for the product's production on the domestic market. In what amounts to a summary of the opinions of the Polish economists, W. Sztyber has noted in this connection: "To ignore the prices of the international market in the system of domestic prices diminishes the possibilities of efficient business conduct, especially in countries which have strong ties with the international market."¹²

Discussion of the issues related to finding and developing the most effective methods of determining a unified financial result has been one of the leading topics in discussion of GDR economists as well. Though at the same time, of course, the problem of establishing an economic relationship between domestic and foreign trade prices has also been examined in the writings of certain authors from the standpoint of a fundamental theoretical approach to its study. Almost all economists acknowledge the objective necessity that there be direct economic interaction between domestic prices and foreign trade prices. For example, in the opinion of (Kh. Mann), "the effect of world market prices on the price structure of the domestic market, which is already guaranteed for imported goods, must be extended to export goods."¹³

In the very interesting theoretical article of (G. Bruder) and (G. Nik), entitled "National and International Value and Price Relations," another fundamentally important issue was raised concerning the economic limits there

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should be on the impact of international prices on the system of domestic price determination. The authors have this to say: "The price relations of the world market cannot be made the universal basis of national price systems, and it is quite impossible to make them the scale of relative efficiency of individual industries within the national economy.... The prices of the world market, which reflect trends in the movement of international values, should be an auxiliary reference point in shaping exports and imports ... we must not have a one-sided orientation toward achievement of absolute advantages in foreign trade arising out of the fact that the national value is lower than the international value. There is also a considerable interest in realizing comparative advantages which are the result of the international division of labor and international trade."¹⁴ And finally, the conclusion: "National values will continue to be the basis of price determination within the national context. The relations of values and prices on an international scale can be approached only by coming closer in labor productivity."¹⁵ So, while they acknowledge the legitimacy and progressiveness of a mutual relation and mutual influence between national and international values and prices, (G. Bruder) and (G. Nik) try at the same time to define optimum economic limits of that interaction so as to avert the risk of subjecting the system of domestic price determination of the socialist countries to an excessively vigorous influence from the prices of the world market. We find the posing of this problem worthy of attention and study.

In Romania Comrade N. Ceausescu, general secretary of the Romanian Communist Party, set forth in essence the basic position toward the problem of the relationship between domestic and foreign trade prices in his concluding address at the Plenum of the RCP Central Committee in December 1969, when he touched upon the question of improving the system of foreign trade prices. Comrade N. Ceausescu informed the plenum at that time that the Executive Committee had discussed a number of measures aimed at ensuring a closer relationship between the financial-economic indicators of industrial enterprises and their export-import activity. Later the solution to this problem was further elaborated and detailed in the Law on Foreign Trade and the Law on Prices; this specifically concerned the procedure for setting prices of export and import products, for adjusting the system of foreign exchange coefficients and certain other methods for managing foreign economic activity.

In the Soviet Union various aspects of the problem of the relationship between domestic prices and foreign trade prices have been widely discussed, above all in the economics literature. For example, V. N. Zhukov and Yu. Ya. Ol'sevich, noting how complicated it is to arrive at an unambiguous solution to this problem, have written: "The present situation, in which production enterprises and foreign trade organizations are protected from the direct effect of the factor of national economic efficiency of exports and imports, is on the one hand the natural result of the rupture in the relationship between costs and foreign trade prices, but on the other a necessary economic condition for realizing the planned physical proportions in international exchange.... We must see both the advantages and shortcomings of this functional system. The national economic approach must be achieved

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in evaluating the advisability of exporting or importing any particular commodity. At the same time the system of foreign trade prices detached from the necessary costs frequently pushes countries into planning volumes and proportions of exchange which are inappropriate and do not approach the optimum in the system of division of labor among the CEMA member countries. The functional system is not providing adequate economic incentives for foreign trade organizations and production enterprises so that they would on their own be active in seeking out ways of expanding the volume and raising the economic efficiency of foreign trade."¹⁶ Yu. F. Kormnov examines this problem mainly from the standpoint of performing the tasks directed toward a further enhancement of material incentives of all entities in foreign trade and industry to fulfill international obligations and achieve high economic efficiency and scientific-technical cooperation. He writes, for instance: "Today the industry of the USSR, our production enterprises, do not have the conditions for direct comparability of their costs with foreign trade prices. They determine the profitability of producing a product for export by comparing the production cost to the price plus the premium for meeting export specifications. These premiums, which are established in percentages of the wholesale price, are not directly related to the foreign trade price, so that cost-accounting incentives to improve the parameters and quality of the product are not created.... To create the conditions for the Soviet Union's participation in international specialization and industrial cooperation with the CEMA countries in the context of full economic accountability (Italics mine--N. M.) further steps must be taken to strengthen the relations between industry and foreign trade."¹⁷ In our view it would be most fruitful to examine the problem of establishing optimum economic relations between domestic and foreign prices first by starting with the peculiarities of the systems for organizing foreign trade activity that are now in effect in the various countries.

Thus, as can be seen from the chronology of the bibliographic references, the culminating point of the discussion occurred in the latter half of the sixties. By now the keenness of the theoretical disputes concerning the advantages and shortcomings of establishing a direct economic relationship between domestic and foreign trade prices has been considerably blunted, mainly because a number of practical steps taking into account the results of the discussions have been adopted in the countries where this was deemed necessary. So under present conditions it is more relevant to examine this problem from the standpoint of practical solutions of the various countries.

The character of the relationship that has now taken shape between domestic and foreign trade prices is revealed most vividly in the prevailing procedure for setting the prices of exports and imports. The methods of calculations adopted in various countries concerning deliveries of products for exports and imported goods received by the national economy show how realistically relations between national and international values are being taken into account, the extent to which the terms of purchases and sale on the external market are allowed to affect the results of the economic activity of industry, and the degree of mutual linkage of the cost-accounting systems of industrial and foreign trade organizations.

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Since the methods of pricing exports and imports are now different in the European socialist countries, in each of them there are peculiarities in the character of the relationship between domestic and foreign trade prices. For example, in Hungary and Czechoslovakia all producers are paid for products produced for export at the prices of their actual sale on the external market. The proceeds of exporters in foreign exchange are converted to domestic monetary units by means of exchange coefficients that reflect the average level of costs in the national currency to obtain the unit of the foreign currency.

Essentially the same principle is applied in the GDR of paying producers of products for export on the basis of actual foreign trade prices converted at special exchange coefficients. This principle is realized through the mechanism of the unified financial result, which in 1971 was extended to all national industrial enterprises and combines under central jurisdiction.

In the system of the unified financial result all finished products (both for export and domestic consumption) are evaluated in domestic wholesale prices, which makes it possible to determine, first, proceeds from sale on the domestic market, and second, the production costs of products for export in domestic prices. At the same time, in the case of products sold entirely or partially on the external market, a determination is made of the export result, which is calculated as follows. First, a separate computation is made of the income from exports by deducting from the value of the exported products at actual foreign trade prices, which is expressed in GDR marks, total cost of distribution in connection with the sale outside the GDR, and the total commercial charges of foreign trade associations (their costs and profit). From this export income one then subtracts the cost of export, which is equal to the production cost of the exported product, which is estimated in wholesale prices of the enterprise or industry plus expenditures to pay for claims, packaging and shipment of the goods within the GDR. The net result between income and expenditures is the overall export result.

Thus the unified financial result consists of the proceeds from the sales of products marketed at wholesale prices of industry on the domestic market, the export result, and government subsidies received.

This makes it possible to take into account the influence which the results of foreign trade activity (both positive and negative) have on the financial condition of industry and yet retain the valuation of export products in domestic prices, thereby ensuring that the production process is organized in conformity with economic accountability.

In Bulgaria products which are exported are paid for at foreign trade prices converted on the basis of exchange coefficients only at the level of state economic organizations [GKhO]. Crediting to their account the value of export products sold at foreign trade prices, the GKhO make payments to their subordinate enterprises at factory-plant prices or on the basis of the standard production cost of the product. In addition, there are GKhO in

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Bulgaria which set up their relations with foreign trade organizations whose services they use on the basis of shared participation in the income and losses from foreign trade activity. Thus in both cases the results of the relationship between domestic and foreign trade prices are directly felt by the individual GKHO, but not by the production enterprises.

In Poland products for export are paid for at foreign trade prices, converted by means of exchange coefficients, in a way that gives full advantages to enterprises supplying finished products for export (the machine-building industry and certain sectors of the chemical industry) and also to enterprises carrying on independent foreign trade activity. These, moreover, may be either the actual foreign trade prices, which are referred to as transaction prices, or ceiling prices by agreement between the producer of the commodity and the foreign trade organization.

Enterprises in the extractive industries and agriculture are paid for products they export at domestic wholesale prices, which, however, are determined on the basis of national production costs, though the world price level is taken into account.

Notable changes have taken place in the principles of setting prices on products for export in Romania as a result of adoption of the Law on Prices in December 1971. According to that law, producers of products for export are paid at domestic wholesale prices, but provision is made for export premiums for quality and various types of additional costs are reimbursed. Moreover, in connection with completion of measures to reorganize foreign trade activity in the country, economic enterprises have recently acquired the right, should their product be sold on the external market at prices exceeding the level of its domestic prices, to credit a portion of the additional proceeds to a bonus fund. This is also of some help in bringing domestic prices closer to foreign trade prices.

In the USSR enterprises are paid for exported products at wholesale prices minus the turnover tax. Special premiums added to these prices are established for certain commodity groups and are financed from the budget. Moreover, enterprises are paid bonuses for manufacturing high-quality products, and they also have the right to dispose of a portion of the proceeds in foreign exchange. But the foreign trade prices actually realized have no direct bearing on the income of industrial enterprises. These prices have significance only for foreign trade organizations, which, having purchased a product from industry at domestic prices, settle accounts with the budget on the basis of prices they have realized on the external market. Moreover, the only reward foreign trade organizations obtain for their activity are the export premiums reimbursing them for costs incurred and profit. In this system both the positive and negative difference between domestic and foreign trade prices is regulated by the budget.

It is evident from what we have said that when products for export are paid for at foreign trade prices, exchange coefficients are indispensable as an

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inevitable intermediary for comparison of value in foreign exchange to domestic value indicators.

There are also specific features in the practice of paying for imported products in the various CEMA countries. For instance, in Hungary consumers pay for imports at prices of purchases on the external market, which are directly converted on the basis of the established exchange coefficients. Moreover, since the price level of analogous products produced domestically may be different, discrepancies occasionally occur in relations between them making it more advantageous to obtain the goods from one source rather than another. For that reason all the financial problems related to the unequal level of prices are regulated by means of special reserve funds. Creation of such funds at enterprises affords the possibility, when prices are rising on the capitalist market, to use these funds responsibly to cover the difference that has occurred, and accordingly, when foreign trade prices are dropping, to build up resources by crediting to the reserve the total amount of funds saved in that way. As a rule these funds are not financed from the budget and are not taxed. But if reserve funds prove to be inadequate in certain cases, the state allocates special subsidies to the enterprises

In Czechoslovakia the prices of imports are set for consumers at the level of prices of actual purchases on foreign markets (fob the Czechoslovak border) plus the trade markup, which goes to the foreign trade entity. Moreover, if enterprises simultaneously obtain raw materials from different sources which are paid for at different prices, then these prices are adjusted to a single level.

The principle that applies to consumers of imports in Poland has since 1971 been that of payment at foreign trade prices, with restrictions of no great importance.

In Bulgaria special list prices are established on imports; they are determined either to take into account all expenses in purchasing them on the foreign market or in certain cases (when an analogous product is produced in sufficient volume within the country) on the basis of a relationship to domestic prices.

The level of actual foreign trade prices is maintained in evaluating imports from the GDR only with respect to products for which there are no analogs being produced domestically. The prices of other products are put on a par with the wholesale prices in effect for analogous products on the basis of the effective quality and technical-and-economic parameters. If the country's needs are met only partially through imports and the prices of those imports differ from the prices of the domestic product, then prices are "mixed" so as to take into account the relative share of the domestic output.

Since adoption of the new Law on Prices in Romania many types of machines, equipment, units and replacement parts for them, complete sets of equipment,

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and in certain cases raw materials and supplies, luxuries and goods for which there is a limited demand have begun to be paid for at the level of foreign trade prices.

In the USSR prices of imported commodities are set in accordance with the wholesale prices in effect (retail prices in the case of consumer goods) for analogous products produced domestically.

Thus prices of imported products in the European socialist countries are set either at the level of domestic prices or by applying the prices of the actual purchase on the external market. In the latter case the prices are converted to the national currency with the same coefficients which are used in converting the foreign exchange realized from exports.

As we see, a process whereby an interrelationship is being established between domestic and foreign trade prices at the level of the industrial unit is taking place to a greater or lesser degree in all the CEMA countries, which are solving this problem in accordance with the conditions, capabilities and tasks they have in the limits of the economic development programs they have adopted within their own sovereign domain. The experience to date also allows us to frame a conclusion to the effect that in various countries the interaction of domestic prices with foreign trade prices is mainly achieved through two methods: first, by setting prices of exports and imports at the level of actual prices at which those products are sold on the external market; second, by putting the prices of exports and imports on the same level as wholesale prices of analogous domestic products in effect within the country.

Each of these methods has its good and bad points.

For instance, the payment of actual foreign trade prices of exports to the producers themselves, making it indispensable to make a direct comparison of the economic results from sale on the domestic and foreign markets, is having a constructive impact on economic development. In particular, this gives an incentive for raising the technical level of production, for improving quality, for enriching the assortment, and for improving the composition of exports. This kind of comparison also affords producers the possibility of discovering the most advantageous products to export and of determining optimum directions for specialization within the process of the international division of labor. However, as experience has shown, enhancement of the impact of the foreign market on the national economy also has its drawbacks. First of all, the control of the state over formation of the composition of exports is voluntarily weakened, since economic entities strive under these conditions to restructure the composition of exports primarily on the basis of their immediate interests, which sometimes do not coincide with tasks on a national scale. There is no question that the method of paying for exports at foreign trade prices has another defect in that the state must subsidize exports because certain products are not competitive on the external market.

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Payment at foreign trade prices is also having a contradictory impact on the terms of import. On the one hand consumers have an incentive to consume imported raw materials more economically, to purchase equipment with a high capacity and in general to pay closer attention to making imports more efficient. But on the other hand the need arises to regularly equalize, which is called "mixing," the constantly changing prices at which imported products are purchased so as to create equal conditions for all consumers in obtaining raw materials, equipment and other goods. Moreover, this principle is usually violated by all countries in setting the prices of imported consumer goods, which as a rule are set in relation to domestic retail prices.

When producers are paid for exported products at domestic prices, we note both good points and bad points in exactly the same way. For example, it is an unquestionable virtue of this method that it affords the possibility of concentrating in the hands of the state purposive guidance of the entire process of developing the country's foreign trade relations and guarantees state control over the efficiency of those relations from the standpoint of the national economy. Conditions are, moreover, created for industrial enterprises engaging in foreign trade activity to operate without subsidies, since the entire process of financial regulation takes place through the state budget. At the same time, isolation from the impulses of the external market diminishes the possibility that enterprises will directly feel the stimulative influence from world scientific-technical progress, world product quality and the world assortment of products. Shutting off the production phase from the effect of the external market engenders a certain indifference toward the economic results of foreign trade activity and detracts from initiative and the desire to seek out ways of carrying on economic activity more efficiently.

The principal advantage of the practice of setting prices on imported products in relation to domestic prices of analogous commodities is the "automatic" uniformity of prices for consumers, guaranteeing them equal conditions of operation. Moreover, since this equalization to domestic prices usually makes imports relatively cheaper than the value estimates of domestic products, foreign equipment with high output becomes more accessible to consumers. But here we inevitably observe the weak points of the method of paying for imports at domestic wholesale prices in that real costs of acquiring expensive imported goods are underestimated, a careless attitude is adopted toward raw materials, and the principles of economic accountability in the conduct of business are weakened somewhat.

Because the method of paying for exports and imports at domestic wholesale prices safeguards the production unit from the direct impact of foreign trade prices, we sometimes have occasion to encounter the opinion that there is no interrelationship between domestic and foreign trade prices in the national economy of those countries at all. In our view it is not legitimate to state the matter this way, since in this case the right to establish the economic interrelationship of domestic prices with foreign trade prices is recognized only for one level--the actual producers of exported goods and

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the consumers of imported goods. While denying the other variants for a possible comparison of domestic and foreign trade valuations, the advocates of this point of view do not notice that the solution to this problem can be shifted to a higher level--to the level of the state budget, where regulation of this interrelationship also takes place. Yet the system of cost-accounting relations that take shape between industry and foreign trade and between foreign trade and the state budget ultimately depends precisely on the level at which these problems are solved. For example, when producers (say, production associations) are paid for products exported at foreign trade prices, these associations independently withstand the conditions of the foreign market, relying on their own resources, and only when necessary do they resort to aid from the state budget--usually in the form of a subsidy. In this variant the interrelationship between domestic prices and foreign trade prices is felt by the industrial entity, which is operating under the conditions of full economic accountability. But when exports and imports are paid for at domestic wholesale prices, all calculations of economic efficiency with respect to foreign trade activity are correspondingly made at the level of the state budget, where the comparison of domestic and foreign trade prices also takes place on the basis of the principles of economic accountability. And it is quite natural that in this variant the conditions, forms and consequences of the influence of foreign trade prices on the economy will be different than when exports and imports are paid for at foreign trade prices. Thus we are not talking about the absence of a relationship between domestic prices and foreign trade prices, but about selection of that specific variant which the country deems advisable to use in regulating the economic relationship between domestic and foreign trade prices in order to increase the effectiveness of foreign economic activity.

As noted in the Comprehensive Program, ensuring an economic relationship between domestic and foreign trade prices depends largely on the rates of exchange or coefficients which are applied. Exchange coefficients are primarily expected to play the role in this process of that objective economic standard used for representing domestic prices in the scale of international value proportions or, conversely, by which foreign trade prices are expressed in the scale of national measurements. If, then, we assume that domestic price relations of commodities reflect the relations of national socially necessary expenditures to produce them, then we can suppose that the foreign exchange instruments make it possible to make the necessary comparisons of the national conditions of production with the international conditions of production and impart economic soundness to conclusions concerning the advisability of a country's participation in the international division of labor and international trade. Consequently, the correctness and effectiveness of the solution of the very important economic problems of cooperation of the CEMA countries depends largely on how precisely and objectively this function is performed by the rate of exchange or the exchange coefficient.¹⁸

Moreover, the role of exchange coefficients is not limited to the measuring function alone. In our view it also performs a very vigorous incentive

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function. This is indicated above all by the fact that the countries are applying at least two coefficients, between which there is usually a rather sizable difference (for example, it is now all of 12 percent in Hungary). The differentiation of the exchange coefficients thus makes it possible to stimulate certain directions of trade and to restrain others, i.e., within certain limits the exchange coefficients have an impact on the efficiency of export-import transactions. But then this means that the exchange coefficients are serving not only as a means of comparing domestic and foreign trade value criteria, but also simultaneously as an economic lever with definite price-determining functions, whose effect it would be dangerous to overlook. As the Hungarian economist (K. Feldesh) has written in this connection, "domestic price relations never automatically coincide with the proportions of foreign trade prices because of the influence of the rate of exchange. Discrepancies between them depend on whether or not the rate of exchange is taken into account in the setting of domestic prices. In the first case the rate of exchange is only a passive expression of the relation between two price levels that do not depend on it (the prices of the world market and of domestic prices). In the latter case it participates in shaping the proportions of domestic prices and plays an active role. Thus in some cases the price level and in others the rate of exchange is an independent variable, and in the final analysis they have a mutual influence. Their constant relation, which is regulated in a planned way, is one of the important quantitative criteria determining the motives which countries have to engage in foreign trade activity."¹⁹

It is obviously no accident that the Comprehensive Program included establishment of interrelationship between domestic prices and foreign trade prices among the group of problems that point the way toward further improvement of the monetary and financial mechanism of the CEMA countries. But every country, taking into account the interests of the commonwealth, will solve this problem on the basis of its national peculiarities in the character of the organization and management of foreign economic activity, the conditions of mutual relations between industry and foreign trade, and the prevailing system of planning, material incentives and cost-accounting relations in the economy.

FOOTNOTES

1. "Kompleksnaya programma ...," Moscow, Politizdat, 1971, p 53.
2. RABOTNICHESKO DELO, 25 February 1968.
3. NOVO VREME, No 6, 1968, pp 48-59.
4. IKONOMICHESKA MIS"L, No 4, 1970, p 34.
5. "Vliyaniyeto na mezhdunarodnite tseni v"rkhu v"treshnoto tsenoobra-zuvane," Sofia, 1971, p 18.

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6. "Reforma khozyaystvennogo mekhanizma v Vengrii" [Reform of the Economic Mechanism in Hungary], Budapest, 1968, pp 242-244.
7. TARSADALMI SZEMLE, No 2, 1970, p 14.
8. KOZGAZDASAGI SZEMLE, No 3, 1970, p 268.
9. "Reforma ...," p 27.
10. TARSADALMI SZEMLE, No 2, 1970, p 13.
11. HANDEL ZAGRANICZNY, No 11, 1969, p 387.
12. Szttyber, W. B., "Teoria i polityka cen w gospodarce socjalistycznej," Warsaw, 1973, p 267.
13. "Wissenschaftliche Zeitschrift der Technischen Hochschule fuer Chemie. Sonderheft ueber die Konferenz 'Politische Okonomie,'" Magdeburg, 1968, p 241.
14. WIRTSCHAFTSWISSENSCHAFT, No 11, 1969, pp 1642 and 1644.
15. Ibid., p 1643.
16. Zhukov, V. N., Ol'sevich, Yu. Ya., "Teoreticheskiye i metodologicheskiye problemy sovershenstvovaniya tsenoobrazovaniya na rynke SEV," Moscow, Nauka, 1969, p 166.
17. Kormnov, Yu. F., "Spetsializatsiya i kooperirovaniye proizvodstva stran SEV," Moscow, Ekonomika, 1972, pp 201-202.
18. On the one hand since domestic and foreign trade prices are in turn the principal factors affecting the rate of exchange, it must be stressed that the processes of price determination and formation of foreign exchange categories are economically affected by feedback as well. Specifically we might take as an example the recent revision (as of 1 January 1976) of exchange coefficients in Hungary, whose principal reason were the discrepant changes in the movement of domestic and foreign trade prices. The new exchange coefficients are now equal to 41.30 forints to the dollar (as against 43 forints) and 35 forints to the transfer ruble (instead of 40 forints) (FIGYELO, 10 March 1976).
19. KOZGAZDASAGI SZEMLE, No 5, 1974, p 560.

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Chapter 6. Prospects for Further Improvement of Prices as a Very Important Instrument in the Planned Mechanism of Cooperation of the CEMA Countries

Further improvement of price determination in the context of socialist economic integration, as shown by an examination of the various aspects of this problem, presupposes that the principal task is a constant scientific search for and practical development of the most effective methods of planned use of prices in the system of foreign economic relations of the CEMA countries. This task is equally relevant to the traditional form of cooperation in which foreign trade was predominant, and also and especially to the new production-and-technical forms of cooperation.

The particular urgency of taking the factor of prices into account in the present stage as a value-oriented planning instrument capable in the very stage of planning and coordination of national economic plans of actively promoting objective determination of proportions in foreign trade and evaluation of its efficiency, specialization and industrial cooperation, fulfillment of long-range special-purpose cooperative programs, creation of joint enterprises and the drafting of various specific integrative measures, is confronting science and practice with important problems concerning utilization of the great potential price determination has in creating incentives.

The prospects for essential invigoration of the factor of prices in its role as an economic criterion in evaluating the efficiency of plans for development of mutual foreign economic relations depend fundamentally, in our view, on a further strengthening of the cost-accounting foundations of the mechanism of economic cooperation in the stage of development of socialist economic integration. Use of economic accountability as a principal planning method for guiding the economy at all levels and in the various spheres of economic activity, specifically in the process of price determination in the domain of foreign economic cooperation, has a specific effect corresponding to the nature of international socialist production relations, and promotes the formation of a system of planned and mutually advantageous contract prices.

For example, it is the planned nature of the method of economic accountability that makes it indispensable to adjust the world prices adopted as the

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base so that by discovering their objective foundation by eliminating the conjunctural and speculative overlays and by taking averages for the 5-year period, this criterion will be put at the service of planned price determination. It is for that reason, incidentally, that the CEMA countries have been devoting so much attention to improving the present methods of adjustment. As a matter of fact, there is no doubt that we should look upon the recommendation on planned, step-by-step convergence of contract prices with world prices, adopted at the 70th Session of the CEMA Executive Committee (January 1975) because the gap between them, which had widened greatly, had seriously upset the norms of mutual relations based on economic accountability, as a fulfillment of the requirements of economic accountability in the sense we have referred to. One of the very instructive examples typifying the consequences of the beneficial effect of economic accountability on the process of price determination might also be the changes noted in the structure of the relationship between contract prices, world prices and wholesale prices in an analysis of the dynamic behavior of their index numbers; as a result of those changes the central position has moved from world prices to contract prices (see the graph on page). In our view the new structure of these interrelations not only confirms the existence of a tendency to maintain a stable continuity of contract prices with world prices, but also reveals development of a certain interdependence between contract prices and domestic wholesale prices in the context of the production-technical forms of cooperation, i.e., the character of the dynamics of the index numbers of contract prices, world prices and wholesale prices is thereby showing in the present stage that in essence an overall system of cost-accounting relationships has already begun to take shape between all three basic value indicators that are involved in the process of price determination in the sphere of foreign economic cooperation.

At the same time a study of the directions of broader and more energetic use of the cost-accounting capabilities of prices under the conditions of the various forms of cooperation has shown that the forms of long-range production and technical cooperation, which encompasses the entire economic cycle from the stage of planning to production and sale of the final results, are above all the most promising in this respect. The guiding influence of the method of economic accountability will in this case be felt in the very first stages of joint activity in the context of these forms of cooperation, and its impact will be virtually direct in the process of planning and coordination of plans. So, in undertaking to draft plans the countries will analyze the results of comparisons and computations of economic efficiency, which, though based on world prices, will pertain to specific conditions of cooperation, and therefore will take internal value criteria into account. Accordingly the countries will naturally acquire greater opportunities to select preferable exporters capable of producing goods under the most favorable conditions and at the lowest cost. Moreover, in conformity with the requirements of the principle of economic accountability, the analysis will involve not only current estimates, but also forecast data taking into account likely changes in the levels of contract, world and wholesale prices during the planning period. It is also important that this will be the

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principal stage of the planned shaping of that relation between supply and demand which will later be one of the price-forming factors that participates in determining prices when the jointly produced product is being distributed. All this taken together will afford the possibility, in our opinion, of creating a price setting system that makes it possible on an objective cost-accounting basis and in the very processes of planning and coordination of long-term integrative measures to make those decisions which will be able to guarantee the greatest benefit for each country separately and also for cooperation as a whole, i.e., to strengthen the interest of all participants in an economically sound way and on a long-term basis.

The process of price determination is developing on different principles in the capitalist economy, which was studied and scientifically elucidated by K. Marx in direct relation to his doctrine of competition as a method that regulates relations among capitalist producers in international exchange. K. Marx, who demonstrated great methodological detail and soundness in revealing the essence in economic nature of capitalist production relations concerning distribution of profit in production and realization of profit in exchange, shows how under conditions of competition, under the influence of constant fluctuations in the relation between supply and demand, individual values of individual producers are haphazardly and coercively first brought to the level of the market value fixed in the levels of the market prices of specific goods, and then, in the process of exchange of various products on the national market and in international trade, again by the method of fierce competition, the rate of profit is now leveled to the average profit in proportion to the amount of capital invested, and the production price is formed.

And finally, as a result of the transition to the imperialist stage of capitalism's development the category of the monopoly price makes its appearance as a special modification of the production price that includes monopoly superprofit.

Thus the method of competition is the specific capitalist method of price determination which serves to defend the class interest of the bourgeoisie and the exploitative mode of production.

The planned and cost-accounting character of price determination under socialism, which guarantees that every country will have its objective and equal share in accordance to its labor and material contribution in the benefit obtained in the process of mutual cooperation, represents a full-fledged alternative to the process of price formation based on the unrelenting struggle of capital, in which the victor establishes monopoly prices on his products and obtains monopoly profit on the basis of might makes right.

Thus if we attempt to generalize the character of the influence of the method of economic accountability on the process of price determination in the mutual cooperation of the CEMA countries from the standpoint of the fundamental orientation of this process, we can clearly see that its basic

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strategic goal is the desire to increase to the maximum the effectiveness of the price factor both in the system of foreign economic relations of the countries of the socialist commonwealth and also in the mechanism of their national economies. This substantially broadens the range of problems which the system of socialist price determination is expected to help solve in the present stage of economic cooperation. Among the most important of these problems we think we must mention problems of using prices to stimulate higher labor productivity, to speed up scientific-technical progress, to raise production efficiency, to raise the standard of living of the population, to develop the most progressive directions and forms of long-range economic cooperation, to optimize the structure of the international socialist division of labor, and to intensify the process of socialist economic integration of the CEMA countries.

It also follows in all obviousness that prices will be able to effectively carry out this enormous program only if the CEMA countries develop and implement an agreed policy in the domain of domestic and foreign trade price determination, which constitutes an inseparable organic element of the conception of the long-range economic and political development of the commonwealth of CEMA countries. Consistent implementation of this policy, combined with coordination of national economic development plans, especially in the process of carrying out long-range special-purpose cooperative programs, will not only help to speed up the process of economic and political consolidation of the fraternal countries as sovereign socialist states, but will also speed up and augment the prerequisites for their still closer economic convergence in the future. The party and government attribute first importance to development of cooperation on a long-term basis. As Comrade L. I. Brezhnev noted in the report of the CC CPSU to the 25th party congress, "it is not merely a question of great mutual economic benefit, but also of a task of tremendous political importance. It is a question of strengthening the material foundation of our commonwealth."¹

Doing everything to increase the effectiveness of the price factor as a value instrument in planning and in solving the most important problems of foreign economic cooperation, like any strategic goal in the economy, presupposes that a number of independent tactical tasks be set along the line of its attainment. From the standpoint of securing the principal conditions for achievement of a strategic goal stated in such concrete terms it seems to us necessary that the following problems be solved on a priority basis in the field of the theory and practice of price determination:

- i. push development of the theoretical and methodological foundations of price determination in mutual cooperation so as to take into account the peculiarities of the stage of socialist economic integration;
- ii. continue study of the problems of convergence of the methods of domestic price formation of the CEMA countries in accordance with the joint research planned in this field in the framework of CEMA;

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iii. coordinate more closely work on the problems of further improvement of price determination in the foreign economic relations of the CEMA countries with the results of the study and practice of monetary relations among them as they develop.

At the present time scientific work is being carried on in all three directions within the various CEMA countries. These questions are also being systematically studied by the respective work groups of CEMA in order to reconcile the positions of the countries.

So, with respect to the problem of convergence of systems of national price determination, we can even now assume general acknowledgment of the advisability of concentrating principal attention on the study of the principles and methods of price determination in effect in the CEMA countries so that possibilities and pathways for their convergence can be defined from the standpoint of methodology. Thus we are not talking about identifying the prices of specific commodities, but of achieving a mutual understanding among the countries to eliminate or reduce in domestic price systems differences of a methodological character that pertain to natural, economic, social or historical factors, as well as to peculiarities in economic planning and management, insofar as this is possible and feasible. The program of research on this problem specifically provides for study of the possibilities of standardization of procedures for calculating the production cost by elements, of convergence of methods of determining profitability, of methods of stimulating the development of scientific-technical progress through prices, etc. As a result of convergence of principles and methods of price determination, in our view, we should expect a further improvement of domestic value indicators in all CEMA countries. That will obviously create a more reliable basis for international comparisons of price levels and relations prevailing in the various countries, and consequently for discovering the most economical producers of various products, selection of rational directions of industrial specialization and cooperation, and higher efficiency of cooperation in the context of its long-range production and technical forms. In other words, domestic price systems will be able to participate more energetically in this process of price determination serving the sphere of foreign economic activity of the CEMA countries.

The drafting of economic and organizational measures to improve monetary and financial relations among the CEMA countries, especially with respect to strengthening and intensifying the role of the collective currency (the transfer ruble) by ensuring its actual convertibility, realistic rate of exchange and gold content, is related to improvement of the process of price determination, in the opinion of economists of the CEMA countries, along two main lines: first, through the function of the measure of value which the transfer ruble performs relative to contract prices, and also through the relationship of exchange coefficients that make it possible to compare international and domestic valuations; second, the collective currency itself acquires a realistic commodity support on the basis of the planned development of commodity trade of the CEMA countries at mutually agreed contract

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prices, which thanks to the methods the countries use to eliminate the harmful influence of conjunctural factors of the capitalist market ensure stability of the collective currency and independence from the manifestations of crisis in the capitalist monetary system. Nor can we fail to take into account that in general the degree to which the rate of exchange of the transfer ruble is realistic depends, as we know, on the relationship prevailing between world and contract prices. As a consequence, the results of putting order into mutual monetary relations should not in our view be regarded so much as an indispensable condition for improving the "technical" means of price determination as one of the ways making it possible to substantially increase the effectiveness of the monetary factor's participation in devising an economically sound and highly effective system of contract prices.

Development of the theoretical and methodological foundations of price determination is among those problems which are virtually perpetual metamorphosis of the tasks, conditions and forms of cooperation to which prices should unfailingly react, organically "become part" of what is new, stimulate what is progressive, and lop off what is outdated and inefficient. As a category which is by its nature economically energetic and which operates in direct interrelations with other parts of the economic mechanism of CEMA (foreign exchange, credit and cost-accounting relations), prices cannot but evolve in accordance with the general lines of improvement of the mechanism of economic cooperation and of its principal instruments. Each time, moreover, in the process of solving new problems facing price determination the causes of dissatisfaction with the present system are analyzed, those directions in price determination which have ceased to meet the requirements of the new stage are criticized, and proposals are presented concerning possible variants for restructuring the system of foreign trade prices of the CEMA countries.

The efforts of economists aimed at seeking ways of improving price determination in the various stages of cooperation already have their own history, and there have been a whole series of hypotheses. Moreover, regardless of differences in approach to solving the problem all economic scientists have focused on the questions of selecting the optimum value base for prices in mutual trade in the products of economic activity; the principles governing their determination; and methods of guaranteeing effectiveness of foreign economic relations for all participants in cooperation through prices. In their search for a solution the adherents of various conceptions, depending, of course, on their fundamental initial positions, have differently evaluated the correspondence of the price base used to the interests of developing cooperation among the CEMA countries; they have taken a position as to whether the price system relying on that base promotes development of progressive tendencies in foreign economic relations of the countries of the international socialist commonwealth, on the character of relations between contract prices and other objective value parameters and on what that character should be, and on the best way toward the most rational shaping of a system of contract prices in the future. Time and experience in the

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development of cooperation have tested the various conceptions with respect to how scientifically convincing and practically viable they are.

At the present time the intensive development of socialist economic integration among the CEMA countries, in our opinion, has created a situation in price determination where the task of intensifying research in the field of the methodology of price determination has again been put on the agenda, especially in relation to long-range programs for cooperation in production. It is on that basis that we have analyzed, as far as we could, the degree of actual realization of the principles and methods of determination of contract prices so as to discover what correction actual reality is making in the ideal schemes and in order to take into account new requirements in recommendations concerning further improvement of prices.

The results of the analysis conducted in this monograph, as well as the conclusions, which have been made by authors of other similar studies, made it possible to arrive at the conclusion that the principal methodological shortcoming of most scientific work done on improvement of the system of prices serving the foreign economic relations of the CEMA countries has been the desire to use unambiguous criteria and uniform methods when and where there existed no uniformity in the conditions and forms of cooperation. The high degree of methodological rigidity and the categorical lack of ambiguity in the approach to solving this ramified, economically very delicate and politically acute problem have in large part accounted for the unsoundness of a number of conceptions expressed in the economics literature concerning improvement of price determination in the face of the great diversity of actual reality.

It is very symptomatic that the logical pattern of this conclusion at the same time suggests in essence a way of solving the problem of prices which is more acceptable in practical terms--the way of a differentiated and multifactor approach to price determination in accordance with the specific nature of the forms of cooperation and the special-purpose cooperative program. As a matter of fact, this conclusion has already been repeatedly confirmed in practice, which provides specific examples in which a system of prices created to operate under the conditions of foreign trade, as an independent form of development of foreign economic relations among the CEMA countries, prove to be insufficiently effective when applied to the long-range productive forms of cooperation.

The distinguishing methodological peculiarity of price determination of the CEMA countries in the present stage, when on the one hand traditional forms of foreign trade cooperation have fully retained their importance, while on the other the new and integrative forms of cooperation are developing at a fast pace, is, then, the need for work to be done along two main lines. The first concerns the purely foreign trade form of cooperation, which constantly and directly feels the influence of the world market, where the factor of world prices, specifically adjusted when necessary to take internal conditions into account, are still an unconditional base criterion; the second

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concerns the long-range production and technical forms of cooperation, for which foreign trade is the final stage; in these forms (for example, industrial cooperation) factors within the system can have far greater importance. It therefore follows that in both cases value factors at three levels--worldwide, regional and national--will as a rule take part in the process of price determination. Only the degree of adjustment of world prices as the base criterion to take into account the factors of the national and regional level will vary in this context. Thus this method is referred to as differentiated not because it uses different base criteria, but because of the changing role of the individual factor as a function of which of the different forms of cooperation is involved.

Many economists of the CEMA countries now share this point of view concerning the legitimacy and advisability of applying the differentiated approach in devising a system of contract prices when there exist diverse forms of cooperation and relative to various commodity groups. Back in the late sixties this position (though the term, which was later established, was, however, not used) was taken, for example, by V. N. Zhukov and Yu. Ya. Ol'sevich, when they wrote that "there exist sizable differences between the conditions of production and exchange within the member countries of CEMA and the world capitalist system, and these differences are not diminishing. Therefore the relations of world costs and prices, even adjusted to eliminate conjunctural fluctuations, will in future become inadequate as a criterion of the proportions of economic cooperation and price determination on the market of the CEMA countries."² Yu. S. Shiryayev notes that the idea of the differentiated approach has become widespread among economists of the CEMA countries: "An approach that provides for selective improvement of the prices of foreign trade as the necessary prerequisites and needs for this arise is not at present disputed by anyone."³

The advisability of making practical use of the method of the differentiated approach was given its most thorough and varied theoretical and methodological justification and recognition in the papers and statements made by participants in the International Conference on Problems of Improving Price Determination, which was organized in CEMA in May 1975. In our view the main reason for this is that the differentiated and multifactor method of setting contract prices actually unified two such extreme positions as the proposal that world prices should be used as the exclusive base and the proposal that domestic costs of the CEMA countries should be used exclusively, which makes it possible to find an acceptable solution to the problem of price determination in the most widely varying concrete situations.

The study of the ways of improving prices functioning in the system of foreign economic relations of the CEMA countries has drawn the attention of economists in the various stages of mutual cooperation because of the impact of causes and circumstances of various kinds. The inevitability of a deep interest in this problem in the contemporary period of economic cooperation results fundamentally from the need to define promising directions for improvement of price determination in the stage of intensive development of socialist economic integration.

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FOOTNOTES

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